Marcor Annual Report 1975

Marcor Progress and Prospects Reviewed by Chief Executive Officers of Montgomery Ward and Container Corporation at Campus Meetings

Contents

Marcor Annual Report 1975

Financial Highlights

Fiscal years ended January 31, ($ thousands except per share amounts)	1976	1975	Percent increase (decrease)
Net sales	$4,822,273	$4,667,479	3.3
Net earnings	$ 135,196	$ 115,724	16.8
Earnings per common share	$ 3.60	$ 3.40	5.9
Earnings per common share assuming full dilution	2.85	2.63	8.4
Dividends paid per common share	$ 1.00	$ .97½	2.6
Capital expenditures	$ 179,869	$ 214,796	(16.3)
Depreciation and amortization	87,719	79,981	9.7
Interest expense	$ 145,563	$ 174,949	(16.8)
Year-end statistics			
Working funds	$ 815,249	$ 752,969	8.3
Inventories	942,625	958,365	(1.6)
Long-term debt	827,309	742,397	11.4
Stockholders' equity	1,392,875	1,309,445	6.4
Book value per common share	31.12	28.77	8.2
Shares outstanding:			
Preferred-series A	4,812,327	5,211,759	
Preferred-series B	8,000,000	8,000,000	
Common	31,281,512	30,329,035	

The Business of Marcor

As the parent company of Montgomery Ward and Container Corporation of America, Marcor serves consumers through the related activities of retailing and packaging. Some of these activities are discussed on pages 5 through 15 of this report.

Montgomery Ward is one of the nation's leading retail merchandising organizations, presently operating 433 retail department stores located throughout the country. Its catalog division each year publishes two general merchandise catalogs supplemented by special seasonal and sale books. The catalog division operates catalog order desks in all retail stores and 555 catalog stores and 1,288 catalog sales agencies.

Montgomery Ward has subsidiaries in the insurance, education and restaurant fields, as well as a subsidiary which manufactures paints and detergents.

Container Corporation is a leading manufacturer of paperboard packaging. Its products include shipping containers, folding paperboard cartons, composite cans, fibre drums, paperboard, bags and plastic containers. Overseas subsidiaries operate in Colombia, Mexico, Venezuela, Italy, Spain and the Netherlands.

Through Hydro Conduit Corporation and its subsidiaries, Marcor manufactures and sells prestressed and pre-cast concrete products and other construction materials.

The New York Stock Exchange is the principal market in which the common stock and Series A preferred stock of the Company are traded. These securities are also traded in the Midwest Stock Exchange, Pacific Stock Exchange and Swiss stock exchanges. The Series B preferred stock is all held by Mobil Oil Corporation and is not traded in any market.

Marcor Annual Meeting

The annual meeting of Marcor stockholders will be postponed to permit stockholders to vote on Mobil's merger proposal (see page 22). The terms of the merger proposal will be set forth in a proxy statement and a prospectus to be transmitted to all stockholders prior to the meeting, the time and place of which will be announced at a later date.

Marcor Chairman's Report to Stockholders

Fiscal 1975 was an excellent year for Marcor, despite the depressed economic conditions which adversely affected both retailing and packaging for much of the year. Fortunately, the impact of the recession was not nearly as severe as we had expected early in 1975. Both Wards and Container Corporation weathered the economic storm. Both recovered steadily as the economic climate gradually improved in the second half of the year. Both established new earnings records in the final fiscal quarter.

Marcor's net earnings in the fourth quarter of fiscal 1975 rose 91.7% to a record $54.8 million from $28.5 million in the year-earlier period. Earnings per share were $1.58 primary and $1.19 fully diluted, compared with $0.74 and $0.59 a year ago. Sales in the

Marcor sales and earnings reached record levels in fiscal 1975

final quarter rose 9% to a record $1,396 million from $1,278 million in the 1974 period. For the full year, Marcor net earnings of $135.2 million rose 16.8% above last year's all-time high of $115.7 million. Marcor sales for fiscal 1975 also established a new record, rising 3.3% to more than $4.8 billion. After-tax earnings on sales in fiscal 1975 were 2.8%, compared with 2.5% in the previous year. Our rate of return on average shareholder equity was 10.1% compared to 10.2% in 1974.

Net earnings reported for the year were before dividends of $14 million on the Series B Preferred Stock issued to Mobil Oil Corporation in September 1974. As a result, earnings per share of common stock were $3.60 primary and $2.85 assuming full dilution, compared with $3.40 and $2.63 respectively in fiscal 1974.

Marcor's profit performance during the past two fiscal years demonstrated the stabilizing effect which our two complementary operations bring to the bottom line. In 1974, when retail sales and profits were eroding, Container Corporation sales and earnings exceeded all previous records, resulting in a 19.7% profit improvement for Marcor. During most of recessionary 1975, Container Corporation was unable to match its record performance of the previous year, but Montgomery Ward's earnings improved so dramatically that Marcor's earnings set another new record.

Ward's dramatic earnings increase offset Container's profit decline

Net earnings of Montgomery Ward in fiscal 1975 (after provision for income taxes and before parent company interest charges) rose 45.4% to $74.8 million in fiscal 1975 from $51.5 million last year. Montgomery Ward sales of $3,779 million in fiscal 1975 were 4.3% above last year's record sales of $3,623 million.

In the fourth quarter, Montgomery Ward sales of $1,136 million were 9.0% above sales of $1,042 million in the year-earlier period. Net earnings (before parent company interest charges) in the final 1975 quarter were a record $40.4 million, an increase of 118.4% above the $18.5 million earned in the final 1974 quarter.

Montgomery Ward's fourth quarter earnings increase resulted from strong demand for both durable and nondurable consumer goods. After a sluggish first half, when a strong recessionary psychology characterized the economy, consumer buying gradually improved and was very strong by year end. Margins im-

Both Montgomery Ward and Container Corporation established new earnings records in final quarter

proved as customers increased their purchases of higher quality merchandise and mark-downs were lower.
Montgomery Ward's 1975 earnings also benefited from lower interest costs incurred in financing consumer credit sales, and from strict controls on inventories and operating costs, which were implemented throughout the year. Both retail store and catalog earnings improved significantly.

Montgomery Ward interest expenses of $118 million in 1975 were $25 million less than in 1974. This decrease was primarily the result of a decline in short-term interest rates paid on the commercial paper issued by Montgomery Ward Credit Corporation.
At the end of 1975, total outstanding customer deferred payment accounts receivable reached $2,283 million, an increase of $300 million, reflecting continued consumer credit buying, which represented 51.1% of Wards sales during the year.

Finances of Montgomery Ward and the Credit Corporation were strengthened by issuance of $125 million of long-term debentures, the addition of $220 million of multi-year loan commitments with major financial institutions, repayment of $105 million of term loans and a net reduction of short-term debt of $173 million. These financial changes will enable the company to finance future growth without any significant increase in its debt structure.

Net earnings of Container Corporation of America (after provision for income taxes and before parent company interest charges) were $68.6 million in fiscal 1975, a decrease of 13.3% from the all-time record of $79.2 million achieved in fiscal 1974. Sales of $953.3 million were 1.2% below the record $964.7 million reached last year.

In the fourth quarter, Container had all-time record earnings of $16.6 million, which were 30.1% above the $12.8 million earned in the 1974 period. Sales in the final quarter rose 9.6% to $239.4 million from $218.5 million in the last quarter of fiscal 1974. Container's 1975 performance was much stronger in relation to 1974 than had been expected earlier in the year, when the entire nation was in a deepening recession. The company's performance, however, improved as the year progressed, and its results for the full year were significantly better than in any other year, except for the outstanding performance record achieved in fiscal 1974. The improving trend during the latter part of the year brought Container's domestic earnings to within 4% of 1974 results. Earnings of Container's overseas subsidiaries, which were 48% below 1974 levels for the full year, also improved in the last quarter. During the fourth quarter, Container

experienced unit volume increases in most domestic product lines. The recovery was strongest in shipping containers, which account for almost half of Container's domestic sales. This recovery, reflecting improving trends in durable consumer goods markets, also occurred overseas, with shipping container volume showing improvement in all six overseas countries in the final quarter. Bookings for orders of folding paperboard cartons also have strengthened, and plastic container volume is improving. The final quarter of fiscal 1975 also brought a significant strengthening of order backlogs at Container Corporation's paperboard mills, which produce the raw materials for its shipping container and folding carton fabrication plants.

Marcor subsidiaries are increasing sales and will improve profits as economic recovery accelerates

As we enter 1976, both of Marcor's major businesses are experiencing sales increases and are well positioned to improve profits as economic recovery continues. Our economists are projecting a 12% increase in Gross National Product during 1976, about half of which will represent real growth, and the balance will reflect price inflation. The rate of general economic recovery, from the 1974-75 recession appears to be restrained and steady, precluding the possibility of material shortages and permitting the orderly recovery of markets for our products and services. It is our expectation that Marcor will grow at a rate which will exceed that of the general economy.

During 1976, Marcor plans capital expenditures of $211 million compared with $180 million in fiscal 1975 and $215 million in 1974. Of the 1976 total, $106 million will be used to continue the expansion of Wards and $100 million to finance continued growth of Container.

Some interesting insights into the current operations and future prospects of Montgomery Ward and Container Corporation are published on pages 5 to 15 of this report. This section represents a significant departure from previous annual reports, since its content summarizes dialogues which the Chief Executive Officers of our major subsidiaries held with college students early in 1976.

These campus meetings raised some issues which we have not discussed in previous reports, and focused attention upon the principal factors that should make 1976 another good year for Marcor.

Mobil merger proposal is being submitted to Marcor stockholders

On March 29, 1976, Mobil Oil Corporation, which has a 54% voting interest in Marcor, submitted to the Marcor Board of Directors a merger proposal under which Marcor's public shareholders would exchange their holdings for common stock and debentures of a new company called Mobil Corporation, which will have previously become the new corporate parent of the Mobil group of companies by exchanging its common stock for the common stock of Mobil Oil Corporation on a share-for-share basis. Under the proposal, which was made after extensive negotiations, each share of Marcor Common Stock would be exchanged for 0.16 of a share of common stock and $30 principal amount of 8½%, 25-year debentures of Mobil Corporation and each share of Marcor Series A Preferred Stock would receive twice what each share of Common Stock would receive (see page 22).

The proposal has been approved in principle by the Board of Directors of Marcor, subject to approval of a definitive merger agreement by our Board and by the Marcor stockholders. Mobil has announced that it expects to vote its Marcor stock in accordance with the position taken by the holders of the majority of Marcor stock not owned by Mobil and voted on the proposal. The offering of Mobil Corporation's securities will be made by a prospectus to be transmitted to all Marcor stockholders as part of the proxy solicitation material for the meeting of stockholders at which the merger proposal will be voted upon.

Leo H. Schoenhofen
Chairman of the Board
Chief Executive Officer

Montgomery Ward operations discussed with Duke University graduate students by Chief Executive Officer Edward S. Donnell

At Montgomery Ward, we view retailing as the business of serving consumers by providing them with quality products and services that satisfy their needs and wants at a reasonable price.

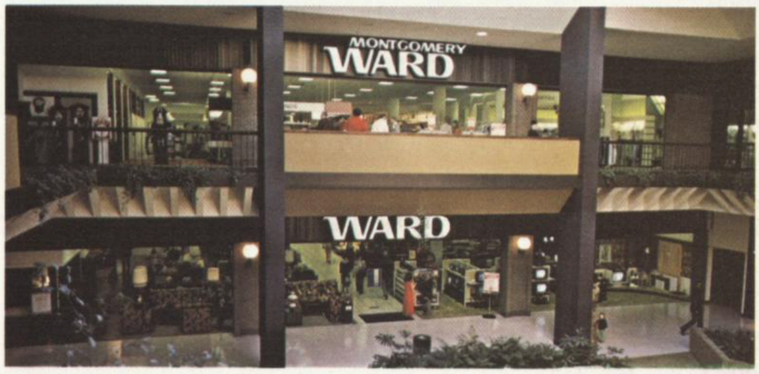
Montgomery Ward today is the nation's third largest retail-catalog mass merchandiser. We also have subsidiaries in the insurance, education, and restaurant fields, as well as a subsidiary which manufactures paint and detergents, and our Montgomery Ward Auto Club, which we started less than two years ago, is now the third largest in the country.

Last year, we opened 12 new retail stores, and we plan to continue our retail expansion by opening 12 to 15 large retail stores per year, with primary concentration on the 24 major metropolitan markets where we are now firmly established with multiple-store merchandising organizations.

We are also expanding our chain of limited-line catalog-retail stores. These units sell paint, appliances, auto accessories and tires at retail, and operate catalog sales desks at which customers can order any of the items stocked at our nine catalog houses. We had 184 of these stores in operation at year end, and we plan to continue opening about 25 of them each year.

The computer has become a very important tool of our business. Most operating, credit and accounting functions in our retail and catalog operations are computerized.

We are now in the process of computerizing the management and control of our retail inventory. This computerized system is currently operating in over 100 stores, and will be extended throughout our entire retail chain, improving inventory management and turnover, permitting more balanced assortments and more timely reordering of merchandise, and helping sales by assuring a consistently higher in-stock position.



Despite its tremendous investment in computers, merchandise, stores and warehouses, Montgomery Ward continues to be a people business. It takes 100,000 people, representing an immense range of human skills and talent, to run our company.

The company's basic philosophy was first expressed more than 100 years ago when Aaron Montgomery Ward, our founder, expressed the now famous policy of satisfaction guaranteed. Today, Wards' consumer advocacy includes our endorsement and support of consumer protection legislation involving credit, advertising, packaging, labeling, warranties and product safety. What it all boils down to is a dedication to serving American consumers with the best possible quality and values in merchandise and service. Our management today is very conscious of the need to improve our return on investment and our profit on sales as we improve our service to consumers. These are our primary goals.

What changes do you expect at Wards in the next five years?

Well, we expect, first of all, that Wards five years from now will be a lot more profitable than it is today. It's difficult in today's highly competitive environment to produce strong profits unless you have a solid sales base. We have now built that critical mass of volume so we can now concentrate primarily on improving profits.

We expect that Montgomery Ward will have more large stores in regional shopping centers. In the 24 major markets where we now operate, we'll have a larger share of market as a result of our current strategy. Five years from now, more of our stores will be in the sun belt, starting in Southern California and going east across the country. Our merchandise upgrading will continue in the next five years as it has the past several years. Computerization of our retail merchandising, which I mentioned earlier, should also be completed during this period.

What distinguishes Montgomery Ward from its major competitors?

Let me begin by explaining that Montgomery Ward is really aiming at the 80% of the consumer market which is the mass merchandise market. We're not really aiming at the high style market. We want good fashions, but not high style fashions, and we're not aiming at the bottom 10% of the market either. Basically, we are competing with Sears and Penney; and the three of us are going after this same big volume market. So you ask, why should a customer shop at Montgomery Ward? I say the only reason that you would change your loyalty from a competitor to us would be because you perceived us to be better qualified to serve you in terms of the merchandise, the service we perform, the way we handle your account. If we're not equal to or better than our competitors, we don't deserve your business. Our company policy is to try and achieve that superiority.

When several major retailers open stores together in a shopping center, doesn't this reduce competition?

The concentration increases competition, rather than reducing it. It is our policy to be where the power is—to locate in these centers with our major competition, to help create store traffic and let the merchants fight the battle. In our business today, we have to be very pragmatic, and we have to be certain that pricing on merchandise is competitive item by item with our obvious competitors. We regard Sears as a very strong competitor in hard lines and big ticket items. Penney is our very strong competitor in soft lines. I believe that no company can retain its share of market without being competitive in price, quality and value.

If I don't accomplish anything else in this session, I'd like to make the point that retailing is the most self-regulating business in the world today. It's inconceivable that we could charge $10 more for a comparable refrigerator or $.75 more on a dress shirt than a major competitor and increase our share of market. Prices will vary during both our promotions and those of our competitors but day-in and day-out, we have to be competitive on our basic prices to survive, much less grow. Price controls by the Federal Government upset the marketplace and cause severe shortages, and after their eventual failure and cancellation, result in a burst of inflation such as we had in 1974-75.

How does Wards determine its product prices and warranties?

These are established by the heads of our 42 national merchandise departments. The national merchandise manager of each department operates as the chairman of the board for a separate corporation. For example, Mr. Colvin is like the chairman of the board of our tire corporation. He is the top expert in our company on tires. With his buyers, he determines what the assortment should be in both retail and catalog. He determines what the warranties should be. He determines the basic merchandise price structure, and how the promotional price structure will vary, depending on the particular event in question.

How did you determine the direction to take in rebuilding Wards?

Well, we knew pretty well what we wanted Wards to become. We were interested in selling to the mass market which accounts for 80% of general merchandise sales. Robert E. Brooker, who was then president, wrote a statement of corporate policy which clearly defined our objectives. We wanted to compete directly with Sears and Penney, with merchandise, facilities, people and personnel policies that were equal to or better than theirs. We decided that we wanted to move on the cutting edge of all of these component parts of the business. Once that was decided, we had to locate our stores where the people were—in the major metropolitan areas. We knew that multiple stores in large cities had the best chance of success because warehousing, service, advertising and administrative costs—all the central expenses of retailing—could be shared by a number of stores rather than a single store carrying that expense itself. So we set about to build what we call our metro districts, beginning in San Diego and, over the years, building up to the 24 we have today.

We were conscious of the demographics. We were conscious of our competition. We knew pretty well what had worked for our major competitors. One other thing that's very important. We decided, 15 years ago, that we had to do some leap frogging and believed the best opportunity to leap frog our competition was in application of the computer to our business. One of the wisest decisions we made back then was to make major investments in computerizing credit, service and all our catalog operating and merchandising. We're now in the final phase of computerizing our retail merchandising. Our early strategy on computerization cut the operating costs of our catalog houses almost in half. We're also enjoying the benefits of credit computerization today. We're handling more credit accounts per employee, I believe, than anyone in the business. We have the best credit scoring and screening processes of anyone in the business.

What major problems do you anticipate in the next five years?

I believe the biggest problem in the next 5 years, and maybe in the rest of your lives and mine, will be government. The Consumer Product Safety Commission, Equal Employment Opportunity Council, Environmental Protection Agency, Federal Trade Commission regulations, and proposed credit legislation are just a few of the government involvements that are going to occupy an awful lot of a businessman's time in the years ahead. How we react will be very important. I think the fact that Wards was the only major retailer to support creation of a Consumer Protection Agency, and get involved in influencing the direction of that legislation rather than being an adversary of government, is an indication of our attitude. We believe it's preferable to work with government rather than being opposed to everything government does. We will, however, stand up and be counted when we perceive government to be acting against our customers' best interests.

Another management problem business will face will be the challenge of maintaining the very delicate balance between growth and asset management. One can go too far on either side of that issue, and we are trying to keep a center position, generating sufficient growth to breathe new life into the company, but not growth that stretches us like a rubber band so that we can't retain the profits.

I also think that inflation will continue to be a major threat. It has levelled off now, but it has caused serious problems for us in the recent past, some of which we are still living with. One part of the problem is the cost of new stores, which has gone up enormously. New store occupancy costs today are double the costs on stores that we opened 5 years ago. In order to afford present occupancy costs, we must be very careful about where these facilities are located, to be sure we can get the necessary sales and earnings.

The unprecedented high rate of inflation in this country in 1974-5 created two other very serious problems in our business.

First, we simply were not able to pass along the cost increase from our suppliers on our merchandise. There was a huge overhang of retail inventories that had to be worked off, and we could not pass through the higher manufacturing costs until that inventory was liquidated.

Secondly, the high interest rates increased our interest costs by \$51 million in 1974 alone. Our credit sales represent 50% of our total sales, creating an outstanding receivable balance of over \$2 billion, so a sharp jump in interest costs has a profound effect on profits. These aspects of inflation adversely affected our profitability in 1974 more than anything else. Now, inflation has abated and our 1975 interest costs were about \$25 million less than in 1974. We also started improving our mark-up somewhat in the third and fourth quarters so we're now back to a more normal pricing structure.

Looking into the future, the rate of inflation primarily depends on government policy. What kind of government are we going to select in November? Will it accelerate the growth of our economy? Are we going to increase national debt? Or are we going to be more conservative? Are we going to demand more productivity out of our government than in the past? We simply don't know. We're estimating that inflation will probably continue in the 5% area during the next 2 years. We're expecting that real economic growth will be about 5%, so a Gross National Product increase of 10% in 1976 is what we're using as the basis for our current projections for 1976-77.

How do you maintain your suppliers, and do you plan more integration in that direction?

There may have been some economic advantage 25 years ago for a large retailer to concentrate his purchases of some items in a single small manufacturer and then acquiring part ownership and controlling the source of supply. In today's competitive climate, however, our main goal is to have merchandise in our stores that is competitive. This means at least equal to our competition in quality and design and, hopefully, at best, exceeding our competition. When you consider all the materials, expertise, technology and machinery available in the world, it just isn't realistic to expect small manufacturers to be able to make available the best in what you need. Our trend has been towards contracting with strong manufacturers, who make large research and development investments, who can give us real leadership in the merchandise we sell. We want to be certian that when we put a product in the customer's home, they are going to be served well. We happen to have our own paint factory, and we have a small investment in one sport shirt factory. Those are our only manufacturing investments of any consequence, and we have no plan to pursue investments in manufacturing. It really would be an undesirable diversion of our capital to invest in manufacturing firms. Our purposes are better served by concentrating on merchandising and distribution than by diverting our funds into manufacturing.

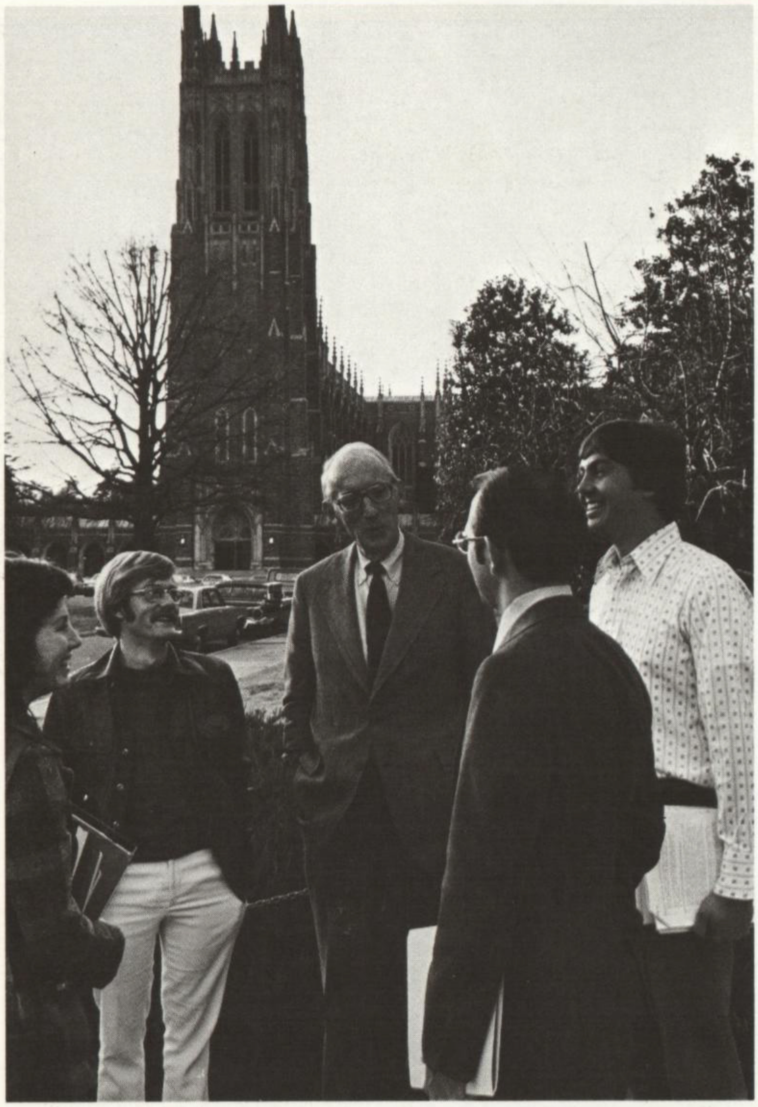
What effect has consumerism had on retailing and your business?

This is the age of consumerism. I regard myself and my associates at Wards as consumer advocates rather than as adversaries. Long before consumerism became a popular movement, I always regarded the customer as my real boss. If we take care of the consumer, the consumer will take care of us. One of the key jobs, of people in top positions in major retailing companies today is to be sure that their organizations understand that responsibility. Our advertising has to be accurate and honest. Our credit terms must be applied as stated. Our merchandise must live up to its warranty or we must make a satisfactory adjustment.

In product planning, our buyers must be very thoughtful about using flame retardant materials, for example, in children's sleepwear. Product quality today must meet competitive standards. If some consumer problem arises at a store, our policy brings it all the way to my office or to Sid McKnight, our president, and we resolve it immediately because we're interested in satisfying the customer. That's the name of the game. I think we're going to see more consumerism in the future rather than less, and I think it's challenging to us. It makes us better merchants. It provides the customer with better merchandise and services.

What organizational changes have resulted from Mobil's control of Wards?

Since Mobil acquired a 54% voting interest in Marcor in September of 1974, the four Mobil executives on Marcor's Board of Directors have been conducting themselves as very interested investors, rather than attempting to manage our business. They're very good businessmen. They are very thorough in their planning and they've been a very constructive influence. Since our business is new to them, they've asked a lot of questions about our organizational structure and about why we do things the way we do them, but they have not attempted to effect any organizational changes either in structure or in people. We've had an excellent relationship. I think they respect our ability to manage our business.



How do you decide where to locate a new retail store?

Our first priority is to add to our existing 24 metropolitan markets, where our profit potential is higher because we can spread the costs of advertising, warehousing, repair service, and district personnel over more units. Our primary expansion aim is to strengthen our base in our existing markets. Our second priority is to find individual pockets of opportunity in the country where a single store can enjoy an adequate percentage of market share to make a profit.

If we determine that another store in our Chicago metro district will significantly improve our share of market without penalizing any of our 16 existing stores there and find a shopping center coming into an acceptable location, we find this an attractive investment. Conversely, when we find a market that lacks a major regional shopping center, and our market study shows a store can attract an adequate market share, we move in. That was the case here in Durham

Once you decide to open a store, how do you fit it to the area?

In each of our regions, we have an analyst who surveys the demographics, determines the amount of sales space per customer in the market, and studies all of the existing competition to determine if there is an opportunity for the store. Once we've made the corporate decision to enter a market, the regional staff conducts its review of the nature of competition in this area, reviews our own experiences in nearby stores, and determines any peculiarities about the market. This review includes some subtle things, like the mix of short sleeve versus long sleeve men's dress shirts; deep sea fishing versus fresh water fishing equipment in the sporting goods department. Is it a strong market for leisure suits or dress suits? That's the kind of thing you get into. Just because the company decides on a 100,000 square foot store, and our prototype calls for a 10,000 square foot furniture department we don't automatically provide that space without considering the competition.

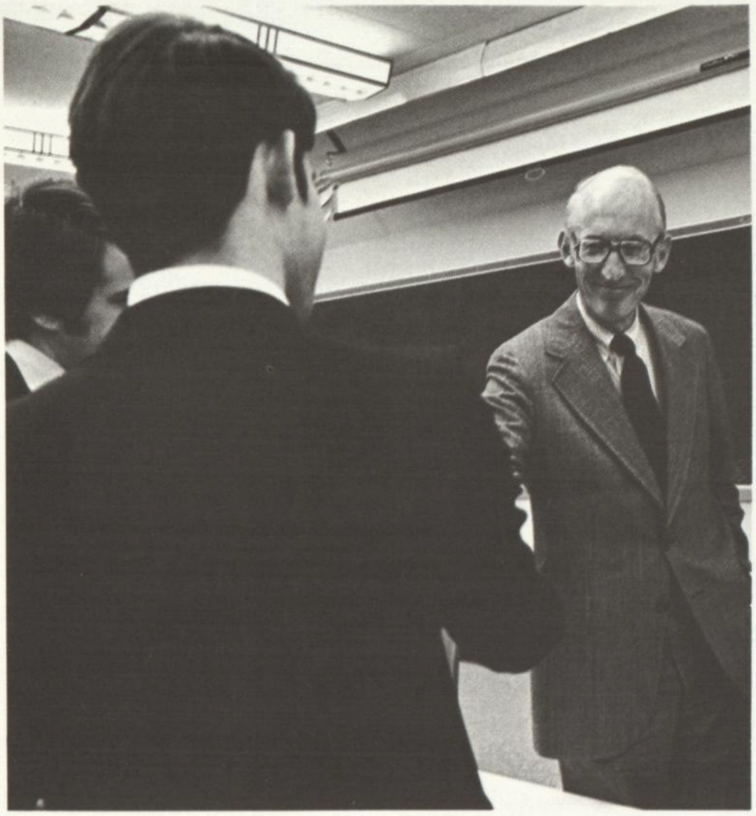
In the case of a regional shopping center, we normally make our real estate negotiations three years in advance of opening. Once these negotiations are completed, the regional staff determines the precise adaptation of our prototype to the actual space we have to work with in the center. They go through the layout of the store, work with the engineers to determine where the entrances should be and how traffic should flow. When the working drawings of the store are done, they work on fixturing and layout. One year before the store is ready to open, they place and schedule the orders for fixtures, equipment, cash registers, etc. About 6 months before a store is opened, a store manager is assigned; key department managers and personnel are transferred to the store during the next 90 days. About 60 days before the store is due to open, all the department managers are physically present and merchandise starts to flow in. There's a lot of work, putting one of these big new units together.

What did you learn from your experiments with different catalog outlets back in the sixties?

Back in those days, we and other retailers were experimenting with different types of catalog offices in supermarkets and other established retail outlets. As we experimented with these various outlets, we found they were too busy handling their own basic business to serve our catalog customers properly.

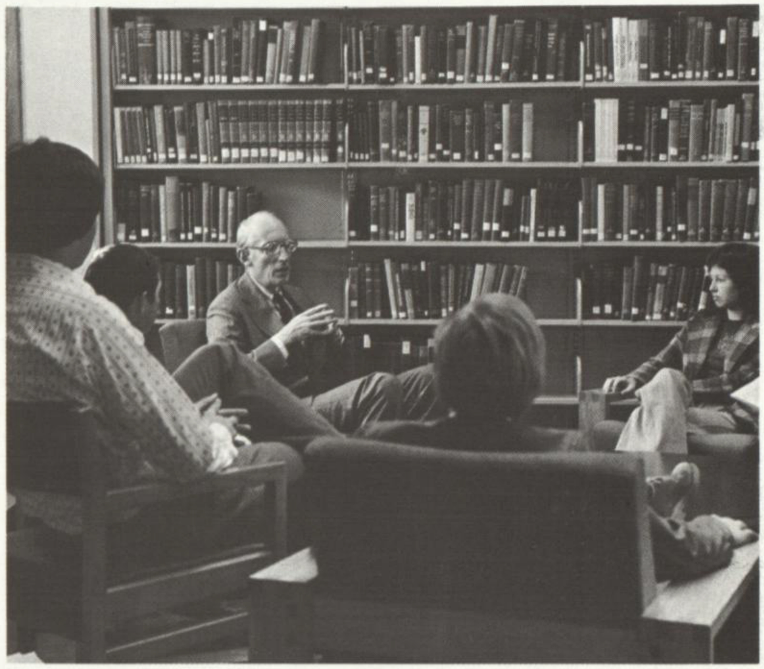
One of our strong thrusts in catalog today is the catalog sales agency, which is basically a franchise operation run by an independent businessman in a small community. We started this program about 10 years ago, and we currently have over 1200 catalog sales agencies in operation.

Another catalog sales vehicle is the limited-line retail catalog unit I mentioned earlier. This is a company-owned unit, with about 3,000 square feet of retail selling space and three auto service bays, stocking an assortment of paint, appliances, television and radio sets, and garden equipment in season, with a large catalog sales desk. The unit has a stockroom so that we can hold merchandise for a week or ten days until the customer comes in to pick it up. With this combination, the retail sales pay for the rent, heat, light, power, payroll and other expenses; and the catalog sales in that unit then become incremental.



What effect did Wards support of the U.S. Olympic team have on profits?

We think we have a responsibility that goes beyond the current year's balance sheet, and that our long range future demands that we be good corporate citizens and that we support worthwhile activities. In this particular case, we were approached by the U.S. Olympic Committee and asked to supply the parade, travel and casual apparel for the 1976 team. We were also given the right to sell this merchandise in our retail stores. While we believe this Olympic contribution performs a worthwhile public service as one of our major Bicentennial programs, we also believe this is an effective showcase for our fashions. When you look at our total cultural, educational and charitable contributions, they are pretty much in line with other major corporations.



How important are catalog sales and how are they generated?

Catalog sales represent 25% of our total sales and they're highly integrated with our retail operations. About 33% of Wards catalog sales come through the catalog order desks in our retail stores. About 32% come from our sales agencies, about 25% from our catalog stores. Direct mail orders represent less than 10% of the total.

Because we are opening catalog desks in our large stores, opening limited line catalog-retail stores, and expanding our telephone catalog sales network in every major city, we expect catalog sales gains to keep pace with retail expansion.

Today, the appeal is convenience. As you know, one of the major changes in our society is the increase in working wives. In families where both the husband and wife are working, the consumers simply don't have the amount of time they used to have to shop in stores. They find it very convenient to shop at home with a catalog, a telephone, and a credit card. Select your item; pick up the phone; call it in; and then drop by the store to pick it up or have it delivered to your home. It's a great convenience.

The catalog also is a great traffic builder for our stores. We position the catalog desk so that the traffic it pulls will help all those retail departments the customer passes enroute to the catalog order desk.

Why does business support institutions which educate students to criticize the individual enterprise system?

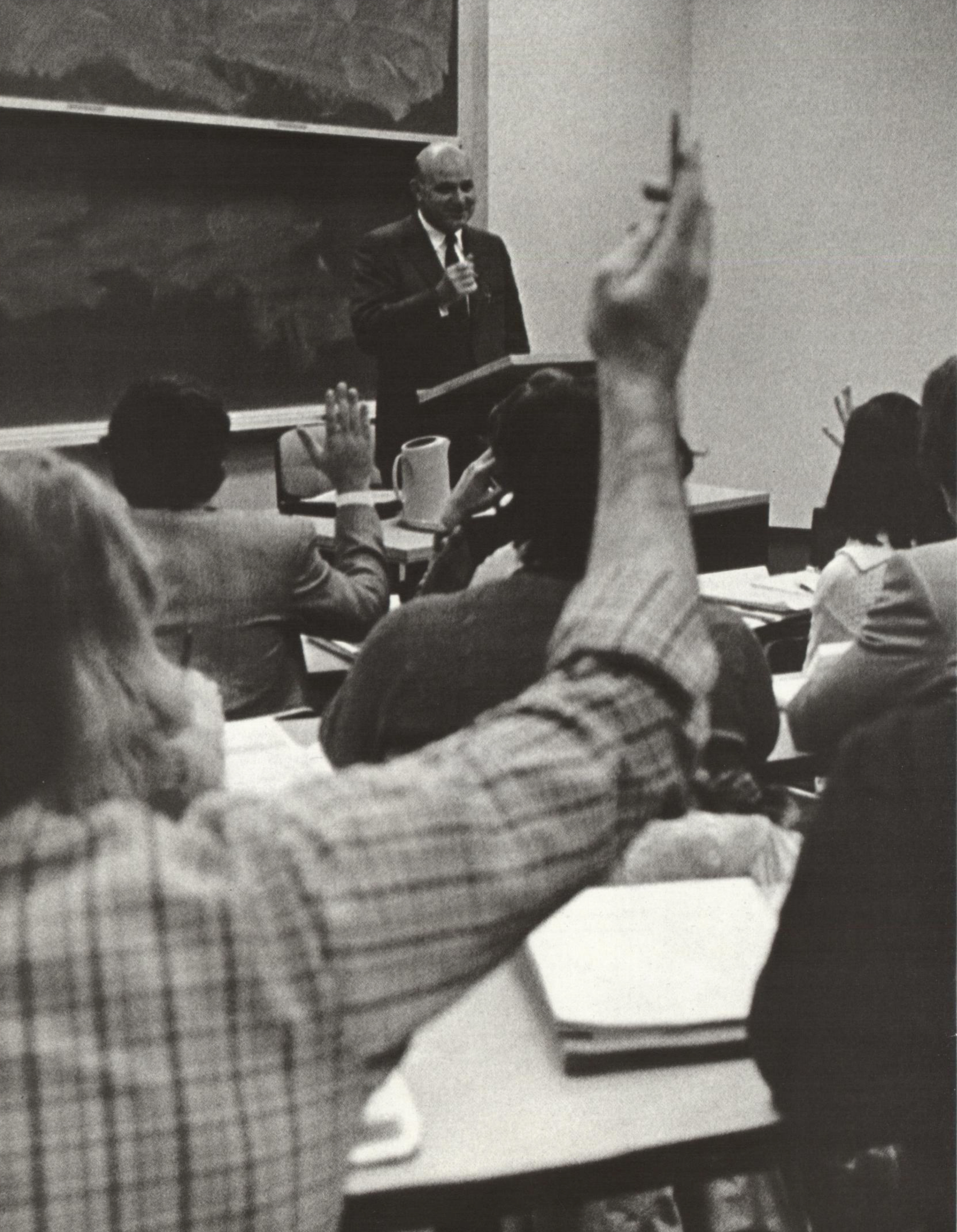
We feel we must support education. A major element in our corporate contribution is support for educational institutions. We support the National Merit Scholarship program and the 39 state and regional associations of independent colleges and universities. We believe that if business tries to determine what's taught at the universities, that would be almost as bad as government deciding what should be taught at the universities. This is one of the reasons we contribute time and money to support private educational institutions. If our private schools fail and government takes them over, what will happen to our freedom?

How will businessmen correct public misunderstanding about profits?

I recently saw a public attitude survey done for a major corporation which showed the general public thinks business gets a 33% profit on sales and that college students think the profit level is 45%, while the actual average profit is more like 5%. Many companies, including Wards, are participating in programs to help people understand the role of profits and capital investment in the prosperity of the nation.

The Business Roundtable last year, for example, sponsored a series of multiple-page messages on basic economics in the Readers Digest. The program of which I am most proud is a course in consumer economics we started five years ago in the City of Chicago for school teachers. The course was certified by the Chicago Board of Education and supervised by a full-time professor. High school teachers are invited to participate and earn credits toward a graduate degree. During a typical 10-week program of two-hour classes, ten business, union and government leaders lecture to the class, opening up a question and answer session to let the teachers decide for themselves what they should pass along to students. This program has been expanded to Washington, Baltimore, San Francisco and Los Angeles. We are planning to expand it to 20 cities, because we believe it has potential for helping high school teachers and their students in understanding basic consumer economics.

In addition, our executives and managers are going out and talking to groups such as you. All of our officers are making themselves available. We believe in what we're doing as businessmen and we're finding that there are more and more businessmen today who are also taking an affirmative position, rather than constantly being on the defensive about business.

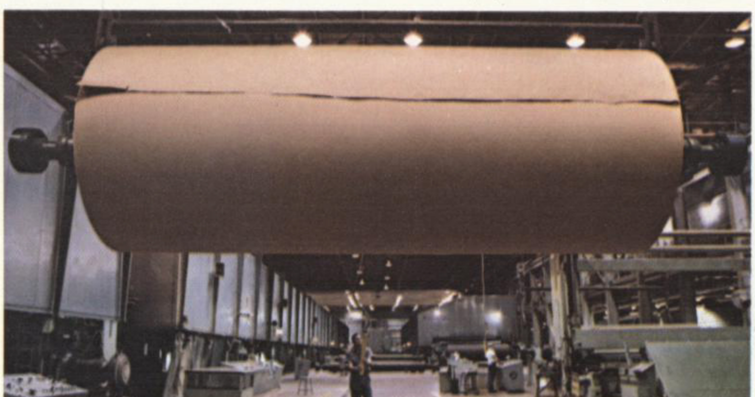


Container Corporation operations discussed with Northwestern University graduate students by Chief Executive Officer Henry G. Van der Eb

Container Corporation of America is a world leader in the production of paperboard packaging, creating packaging solutions to the marketing and distribution problems of virtually every segment of American industry. In order to most effectively serve our many customers, we have 92 facilities throughout the United States, including paperboard mills, paperstock collection and processing operations, and converting plants

that produce finished packaging. We have major packaging operations in Colombia, Venezuela and Mexico, and also installations in Holland, Spain and Italy.

Container's principal products are corrugated shipping containers, the basic package used in the distribution of most products; folding paperboard cartons, the most common consumer package; and composite cans, used to package a variety of consumer and industrial products. We also derive a significant portion of our income from the sale of paperboard and wastepaper to other companies.



To support our leadership position in the growing worldwide market for paperboard packaging of all kinds, Container continued its long-term capital investment program, spending $85 million during 1975.

One of the principal projects completed during the past year was the addition of 100,000 tons of production capacity at our major paperboard mill in Fernandina Beach, Florida. This new installation is particularly significant because it uses wastepaper as its raw material, adding these recycled fibres to the mill's basic pulpwood furnish. The Fernandina Beach addition will raise our total domestic productive capacity for corrugated shipping container materials by approximately ten percent.

Container's International Division also added new production capacity to support substantially integrated packaging operations in Colombia and Venezuela. New paperboard mills completed during the year in San Felipe, Venezuela, and Barranquilla, Colombia, will produce packaging materials for these rapidly growing economies, using local raw materials.

The mill in San Felipe uses bagasse—the waste byproduct of sugar refining, while the Barranquilla mill utilizes a combination of wastepaper and tropical hardwoods native to Colombia.

Late in the year, operations began at a new composite can plant in Greenville, North Carolina. This plant produces cans for the expanding snack food market.

The Plastics Division completed construction of a new facility in South Brunswick, New Jersey. This plant will produce industrial plastic containers for specialty chemicals—this division's principal product line.

Container Corporation is the nation's leading recycler of wastepaper. Nearly half of our basic raw material consists of these secondary fibres. To further integrate our sources for these fibres, the Paper Stock Division opened new collection and processing facilities in Addison, Illinois, and in Jacksonville, Florida, bringing the number of these facilities in the United States to eleven, located in the nation's metropolitan areas.

Container's other fibre source is pulp wood, acquired through open market purchase and through selective cutting from timberlands in the Southeast, where we own or control approximately one million acres. To meet the future raw material requirements of our major Southern paperboard mills, and consistent with our intention to increase our timber self-sufficiency rate, we continued our long-term program of acquiring additional timberland acreage in the Southeast, and managed existing acreage for improved fibre yield.

Why hasn't Container diversified out of the paperboard packaging business?

We have looked at diversification very seriously over the years, particularly during the 1960's. As you may recall, that was a period when you felt left out of things if you weren't buying a company a month, and trying to embrace new technologies, businesses and markets which often had little relation to your basic orientation.

Fundamentally, we have been quite successful in paperboard packaging over the years, and I think our record bears this out in growth, profitability, and return on investment.

Of course we have made some acquisitions in the past. Some were good and others were less than successful. Those that didn't meet our expectations we subsequently disposed of.

I personally don't think that management, as a science, is completely transportable from one business to another. I happen to feel that a successful entrepreneur must thoroughly understand his markets, the technology of the industry, and the basic economics of his business. This means that you can't just jump from paper to radios to cosmetics and expect to perform equally well in all of them.

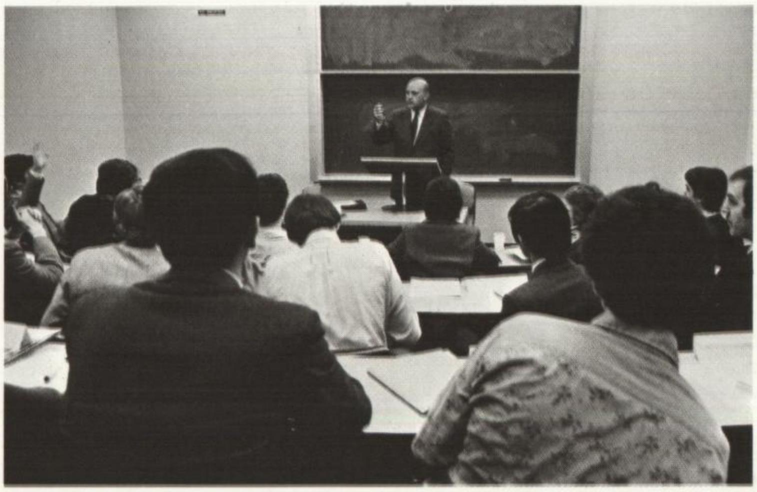
Actually, Container is a rather well diversified company. Our product lines are diversified across many segments of the packaging industry, from the basic manufacture of paperboard, shipping containers, folding cartons and composite cans to industrial plastic containers. We are diversified in another sense, since various areas of the company have different growth expectations, ranging from the GNP-related growth rates of our mature product lines, folding cartons and shipping containers, to the higher growth expectations of composite cans and plastics. And growth in our international division has been and is expected to be even faster than in our domestic operations, as the developing economies of these countries create new demands for consumer and industrial packaging.

Container is also well diversified geographically, with modern, well-equipped plants located in proximity to the markets we serve.

We also feel that, with the creation of Marcor in 1968, we achieved diversification on a broad scale in retail and catalog merchandising and services. The strength of this merger has been demonstrated clearly in the past two years, as Ward's earnings suffered in 1974, but were pulled up by Container's record year, while just the reverse was true in 1975. If a principal purpose of diversification is to achieve counter-cyclicality, then I think you would have to conclude that we have indeed achieved that purpose.

Finally, we are confident that due to their inherent characteristics, our equipment, our processes, our raw materials and our finished products are readily adaptable to change, so that we can easily keep pace with the changing packaging requirements of our customers.

So, while Container may not be diversified in the sense that we have acquired companies in other businesses and with different technologies, we are far from having all our eggs in one basket. And, looked at from an investment standpoint, we believe strongly that we have many attractive areas for capital investment within our own company, so we really have little incentive to seek outside investment opportunities.



What is the likelihood of government taking a more active role in business?

Well, I think we have to recognize that all industry will be subjected to increasing governmental regulation and inquiry. And, certainly the social and political climate indicates that prevention or avoidance of this increased regulation is unrealistic. I think that the job we have to do is to steer the well-intentioned agencies and legislators toward better informed and balanced decisions. We should be aggressive in pointing out to them the counter-productive aspects of many proposals, and we should organize ourselves for the most effective communication of company and industry positions on the substantive issues that affect us.

However difficult it may be, complying with new regulations in an effective and responsible way, with the least possible disruption of operations, and at the lowest possible cost, is part of every manager's job these days.

At Container we have learned to live with a number of new government requirements in recent years. Such areas as safety and health, benefits administration, equal opportunity employment, and environmental affairs have all required a high degree of newly developed expertise. Consequently, we have added a considerable number of specialists to our corporate staffs in order to make sure that we remain in compliance with the changing regulations and laws. We have also added a Corporate Affairs Department to coordinate our relationships with lawmakers on the local, state and federal levels.

Do you look for Government help in your wastepaper operations?

You have raised a very fluid issue. There are many people who are recommending tax incentives to encourage the increased use of recycled materials, and some of their ideas have merit.

We feel strongly that we must get more fibre in the future. There is a vast supply of wastepaper out there available for collection if there is a dependable market for it and if we can motivate people to collect it. Presently the U.S. collects and recycles only a little more than 20 percent of the available wastepaper, while in countries such as Mexico and Japan, that figure is more like 40 percent.

One point we'd like to make is that there is a high cost of collecting municipal refuse and hauling it to an incinerator or a landfill. We have striven for 50 years to pre-segregate municipal waste, to keep certain grades of wastepaper out of the solid waste stream. Now we're saying that if through pre-segregation and collection we can save the municipality some portion of the $30 or $40 they pay to haul each ton of garbage off to the dump, there should be some kind of trade-off. Perhaps a tax incentive, or some other vehicle could help assure a more consistent demand.

As a matter of interest, we are beginning to get strong recommendations and in some cases regulations among governmental agencies themselves to segregate and save their own wastepaper.

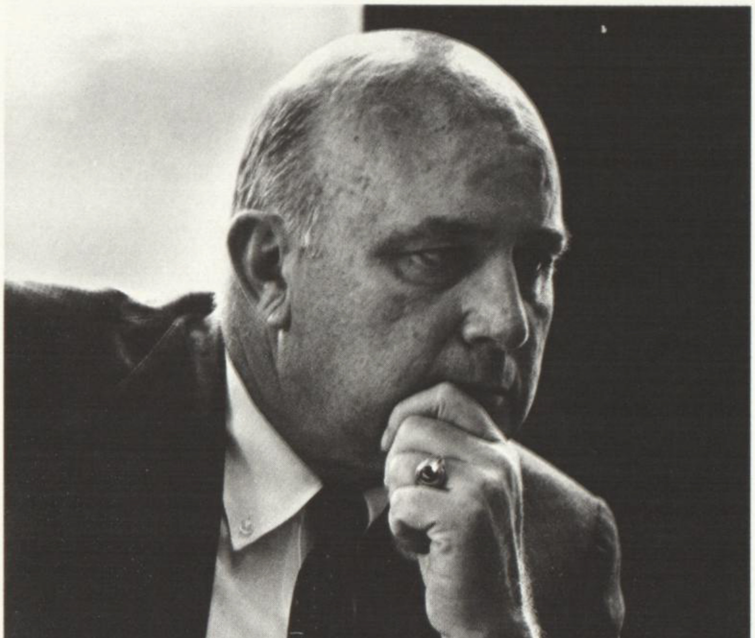
Do you have a program to assure a constant wastepaper supply?

This is certainly a very complex problem, and one we work at constantly. Your question recognizes that wastepaper availability is often erratic. It is both a waste by-product, and a derivative product. To assure the even and well-coordinated accumulation of material like wastepaper, you must have a consistent growth in the end-use markets, with a consequent consistent level of operations in the paper mills that consume wastepaper.

Unfortunately, constant demand for wastepaper cannot be guaranteed by any company or even by any industry. We are completely dependent on what the market will absorb. I'm not suggesting that consumers should go into the marketplace and say they will only buy packages made from recycled paper, or only buy recycled products. But my point is that, unless there are fully established end-use markets for converted wastepaper, and the economics of the markets are totally compatible, we are going to experience wide swings in the demand for this material.

Container alone collects well over a million tons of wastepaper a year, and despite our best planning efforts, we frequently experience unexpected shifts in demand. Since wastepaper is not a manufactured product, but a result of involuntary production, it's almost impossible to turn the supply on and off quickly.

We have pioneered in public relations campaigns with municipal governments, Boy Scouts, church groups, civic organizations, and the like, to promote newspaper collection drives. I can tell you that it is a very distressing experience to arrange a collection drive with a group of Cub Scouts in January, with the expectation that you are going to pay them a certain price per ton for their newspapers, only to find in June, when they hold their drive, that the market price has dropped substantially. These things happen not through design on anyone's part, but simply due to the economics of the industry.



Why do you plan to finance overseas expansion by borrowings?

We don't plan to finance overseas expansion solely by borrowings. Our objective for each of our international companies is to ensure that it operates as a healthy, viable financial entity on its own bottom, with regular dividend policies and the ability to finance its own growth as any company should.

In practice, funds for investment would come from funds generated internally through depreciation and retained earnings, as well as through the judicious use of some borrowed funds.

How did you choose the six overseas countries in which you operate?

As a matter of conscious policy, we have sought from the beginning of our international operations in 1944 to participate primarily in developing nations which offer us opportunities to contribute management ability, packaging technology, and marketing know-how not available from local sources. We have sought to share these talents with local nationals and, with the development of indigenous raw material sources, share in the benefits of expanding economies.

In developing nations, unlike the United States or much of Europe, there are still opportunities to convert the packaging of many products from primitive forms, such as burlap bags and wooden crates, to paperboard containers, and in these opportunities for conversion lie the possibilities for unusual growth.

For instance, the lack of large growth opportunities is one of the reasons that we do not have operations in England or Canada, and was a factor in our decision to withdraw from West Germany. Those countries have very sophisticated packaging industries, and there is very little likelihood that Container could make any special contribution.

On the other hand, one can easily see that Colombia, Venezuela, and Mexico, the three Latin American countries in which 85 percent of our international investments are concentrated, are truly developing nations. We have been growing with the economies of those nations for many years, and we look forward to being active and profitable partners in their continued economic progress.

Looking at Europe, we feel that Spain, where our newest international company is located, is actually a developing country by Western European standards. During the past several decades, the Spanish economy has been growing at a rapid rate. Since World War II, Spain has established a substantial economic base, which has led to increased opportunities to introduce paperboard packaging. Therefore, we believe that there are good long-term opportunities for a paperboard packaging company such as Container, though we are certainly aware of the current economic and political problems.

World Bank projections for Colombia indicate you will need a new $50 million mill by 1982. How would you finance such an investment, and how would Container justify it in terms of the changing political environment?

Frankly this is a decision we haven't yet faced, and I don't want to give you a hypothetical answer. However, I think that historically we have more than kept up with the GNP growth of Colombia in terms of supplying paperboard.

Obviously $50 million is a very large amount of money. But I don't think that in our current situation within the Andean Pact we would have any different approach to making an investment of that magnitude, provided that we wanted to continue with the same percentage of the market as we have had in the past.

It is basically a question of whether or not we can generate sufficient internal funds, finance it locally, or get other financing based on the strength of Cartón de Colombia's balance sheet to warrant that kind of investment. We would take that kind of a dispassionate position if a similar decision were to be made in any country in which we operate, including the U.S.

So really, there are no political overtones in our decision-making process. Colombia will need additional paperboard capacity. It is a very fast-growing economy, and we have had this project under consideration for several years. But, at the moment, the rather serious recession from which Colombia is just emerging has deferred this mill for several more years in our current projections.

How does pollution control compete for scarce capital? And, are your pollution control expenses overseas related to laws of those countries, or to Container's sense of social responsibility?

I'd like to answer the last part of your question first. Obviously, it is impossible to generalize an answer that would be true for all of the countries in which we operate. Each has different national priorities, and each government makes different social choices in an effort to meet their country's most pressing needs. However, each country in which we operate has strict environmental control laws on the books, and we are making every effort to comply with these regulations. For example, in the capital planning process for our new mills in Colombia and Venezuela, we have anticipated the application of even stricter environmental standards, and we have made provisions to meet them.

I don't think you can look at environmentalism or environmental compliance strictly as a moral issue, with action motivated by the feelings of corporate management. Let's face it, environmental regulations have been imposed upon both corporations and municipalities by federal, state and foreign governments—and with good reason. A clean and healthy environment is important to all of us.

We will certainly have continuing environmental costs in the overseas countries in which we operate, although, because of the nature of our operations there, the investment will be a lower percentage of total capital than in the U.S.

In the domestic company we have spent a substantial amount of money over the years on environmental compliance at our paperboard mills. Fortunately, however, our planning cycles for increased production capacity have allowed us to keep abreast of changing environmental standards. For example, we have combined construction of new capacity with environmental improvements at our two major pulp mills in the South, and a smaller pulp mill in Ohio. Consequently, our pollution control expenditures in recent years have not represented as high a percentage of total expenditures as other companies may have experienced.

Is your concentration on custom packaging a marketing limitation, making you too much of a specialist?

The term "custom packaging" should not connote small orders, limited production runs, or restricted opportunity. We cater to many of the largest users of paperboard packaging in the nation, our equipment is both large and versatile, and our costs are competitive.

We have, over the years, in solving our customers' packaging problems, made every effort to create distinctive packaging through the use of all our creative services and capabilities. As a consequence, we make few standard packages and we are not burdened with speculative inventories. Thus we describe ourselves as a custom producer, rather than a commodity producer.

Why doesn't Container put more emphasis on basic research and the development of new materials?

Well, for one thing, Container is primarily in the converted products business. The requirements in this area are principally applied research and product development. On the other hand, the paperboard end of our business is highly technological by many standards, but its development has not been characterized by frequent technological breakthroughs.

I certainly wouldn't want you to infer that we are not doing any basic research—far from it. However, because of the enormous capital investments involved in implementing major changes, those areas in which we are attempting to create important new technology are usually collective projects within the industry as a whole. We join with other companies to work with Battelle Institute, the Institue of Paper Chemistry, Arthur D. Little, and similar organizations.

For example, extensive research is currently underway to find alternatives to the present kraft chemical recovery system. If successful, this could result in both lower air emissions and better energy recovery.

As to searching for new materials, it seems to me that we are in a basic industry and our raw material is cheap, versatile and requires less energy to convert than most materials. In addition, wood fibre is in virtually inexhaustible supply and is infinitely renewable in nature—so there really isn't much incentive to search for an alternative.

Is a unit growth rate of 4 to 5 percent realistic for Container?

Yes, I feel that projected growth rate is realistic. Historically, the paper industry's growth rate has exceeded the rate of growth of the Gross National Product by approximately one point on broad swings. The last information I had indicated that the GNP is projected to grow on an average of 4.7 percent over the next five or six years. If you use 1974 as a base point, the GNP growth will be only 3.5 percent, but that is due to the aberration of having two successive years in which the GNP declined.

Looking at the corrugated box part of our business, our best judgment is that, domestically, the industry as a whole should grow at a rate in excess of six percent for the next five years. Of course this is starting from a low base, since 1975 unit volume was down some 11 percent from the previous year.

We do feel confident that our corrugated sales will approach those levels from last year's base, and we believe that folding carton growth will be just a little lower than that. On the other hand, composite cans and plastics, which have totally different unit common denominators and have been growing more rapidly, should continue to have a faster unit growth rate than some other products.

Overseas, we are looking at unit growth rates in the range of 8 percent in our Latin American operations, and volume in Europe will have to improve from the low levels of 1975.

So I think we can generalize, and say that a five percent composite unit growth rate for Container over the next five years is a reasonable assumption.

The other side of that coin, of course, is how good your GNP figures are, and whether or not the country is heading into a period of generally slower economic growth. Changing demographics, new lifestyles and expectations, government restrictions, and continuing inflation and unemployment, all could translate into a slower growth rate. Hopefully, though, we won't experience the extremes we did in 1974 and 1975.

What is most important to Container: Growth, profitability, or market share?

Well we're going to try to continue to balance those three elements, as we have balanced them in the past. Market share is not nearly as important in our business as it might be to, say, a maker of consumer products. As you know, we currently have six percent of the corrugated shipping container market, for example, and the industry is so large it would be difficult for us to increase that share substantially.

I think the reality is that our growth will continue to follow the GNP. If that sounds a bit flippant as an answer, it is about what we have been doing over the longer term.

Obviously, we're interested in profitability and our company is strongly oriented toward producing a high rate of return on investment. That has been the name of the game at Container ever since its beginnings. Our job as managers today is to anticipate and stay abreast of changing markets, spend our money wisely, and continue to earn an above average return on our invested capital.

We succeeded in meeting ambitious goals during the past five year period, and I have every confidence that we will do so in the five years that lie ahead.

What's the main challenge facing your industry in the next 5 years?

While there will be many specific challenges in response to new priorities in a rapidly changing world, I think the basic underlying challenge we have is the timely addition of new productive capacity in the primary sector of our industry, consistent with the growth potential inherent in the demand for our industry's products. That basic challenge has a number of inter-related sub-challenges ranging from the ability to finance on the one hand, to the ability to respond adequately to environmental benefits on the other.

One problem will be to maintain a reasonable balance between environmental demands and their costs. A perfect illustration is the Water Pollution Control Act Amendments of 1972. Billions of dollars have been spent by all industry to meet a rigid set of water standards by 1977 and real progress has been made. These results are being obtained through the use of the "best practical" control technology.

There are more stringent standards already promulgated for 1983 based on the "best available" technology, but there is real question whether the incremental improvement in water quality, expected to result from the 1983 standards, is justifiable when evaluated on a cost versus benefit basis.

Hopefully, the Congress will recognize the need for a "mid-course correction" in these progressively tighter standards and will proceed with caution before deciding to proceed to "best available" technology requirements. Incremental environmental benefits must be judged on cost effectiveness and their economic impact on other applications of capital.

While no one argues with the objectives of a clean environment, it must be realized that monies devoted to pollution control assets, which are non-productive in the economic sense, divert limited capital funds from other important applications, namely expansion and replacement.

According to a recent study for the American Paper Institute, the primary sector of the industry has spent $3 billion through 1975 for air and water pollution control.

Expenditures for pollution abatement have averaged about one-third of the annual capital budget of the primary sector for the past five years. In the next eight years, it has been estimated that an additional $12 billion must be spent to comply with the 1983 standards.

There must be a realistic understanding of the problem not only on the part of the industry, but the public at large, the Environmental Protection Agency, and the Congress. We must recognize that there are economic, social, and aesthetic trade-offs which must be evaluated and balanced before governmental mandates are set on programs requiring capital expenditures of this magnitude.

Paper industry projections indicate that, should pollution abatement continue to absorb the high percentage of new capital expenditures that it has in the past, there will be considerable shortfall of cash flow available for essential new productive capacity in future years.

To the extent that pollution control schedules can be stretched over a longer time-frame or modified to more economically realistic objectives, estimates indicate that each billion dollars deferred could add one million tons of new capacity in the critical period between 1978 and 1983.

Adequate funding of these requirements by the industry implies the need for a liberalized approach to depreciation allowances, higher tax credits for investment, with perhaps special treatment for environmental expenditures, and increased outlays on the part of industry for research and development.

All of this does not presume that capacity additions are the only avenue to meeting the demands of the future. While our industry has had an unusually good record in productivity improvement over the past fifteen years, there is obviously still room for more improvement, but this again takes more capital and more technological break-throughs which are not as yet at hand.

What other challenges do you face?

Another area of challenge will be to constantly improve the productivity of our timberlands. While land is a finite commodity, there is great potential in expanding the fibre yield of existing timberlands through better forest management, genetic research, increased fertilization, and the use of forest residuals not now in the basic fibre stream because of lack of adequate technology. Although the U.S. is well stocked with timber, there are many millions of acres not being properly managed, including a substantial acreage in the National Forests. Timber is a renewable resource, and we should make every effort to utilize it to its full potential. It has been estimated that the consumption of forest products will double by the end of the century.

A supplement to the fibre source of virgin timber, of course, is the whole gamut of recyclable fibres. As I indicated in response to an earlier question, we must work out a more effective system to properly presegregate those grades with economic value for recycling above their value as a fuel.

Our real challenge will be to keep all of these elements in balance and to avoid the drastic shortages and gluts of the past, due to an uneven stream of capital investment. This is what will keep our industry a healthy one, insure its ability to sustain and create jobs, and also allow it to provide the efficient and necessary materials and services to our customers.

Marcor Financial Review

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Quarterly Sales and Earnings

	Quarter	Net Sales ($ millions)	Net Earnings ($ millions)	Earnings Per Share Primary	Earnings Per Share Fully Diluted
1974	First	$1,069.4	$ 29.0	$ .91	$ .69
	Second	1,128.2	29.9	.93	.71
	Third	1,191.8	28.3	.82	.64
	Fourth	1,278.1	28.5	.74	.59
	Total	$4,667.5	$115.7	$3.40	$2.63
1975	First	$1,062.4	$ 25.6	$ .64	$ .53
	Second	1,147.9	26.4	.66	.54
	Third	1,216.1	28.4	.72	.59
	Fourth	1,395.9	54.8	1.58	1.19
	Total	$4,822.3	$135.2	$3.60	$2.85

Montgomery Ward provides monthly for inventory shrinkage by charging approximately .6% of sales to cost of goods sold. At year-end, after taking the physical inventory, the difference between this provision and the actual shrinkage is credited or charged to cost of goods sold. This procedure resulted in additions to fourth quarter net earnings of $6.7 million in 1975 and $7.4 million in 1974 above that which would have been reported if the actual shrinkage had been prorated over all four quarters based on sales.

The cumulative effect on prior years of the change in accounting policy which occurred in 1974 relating to store pre-operating expenses was charged in full to the fourth quarter of fiscal 1974 and amounted to a reduction of net earnings of $4.7 million.

Quarterly Dividend and Market Price

	Quarter	Common Stock Prices Low	Common Stock Prices High	Series A Preferred Stock Prices Low	Series A Preferred Stock Prices High	Dividends Paid Per Share Common Stock	Dividends Paid Per Share Series A Preferred
1974	First	19⅝	26⅜	39¼	52¼	$0.225	$0.50
	Second	21⅞	28⅛	43½	56½	0.25	0.50
	Third	14¾	28	29½	55¼	0.25	0.50
	Fourth	13¼	18⅜	26½	36	0.25	0.50
						$0.975	$2.00
1975	First	13⅞	22	28½	43¼	$0.25	$0.50
	Second	21½	29	42¼	57	0.25	0.50
	Third	22⅜	27⅜	44½	54	0.25	0.50
	Fourth	23⅝	29⅛	46⅞	57¼	0.25	0.50
						$1.00	$2.00

Details on dividends paid on the company's Common and Series A preferred stocks are for the fiscal years while high and low prices of these securities on the New York Stock Exchange are for calendar years as reported by the National Quotations Bureau.

Major Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of all significant subsidiaries other than principally those engaged in financial services (Montgomery Ward Credit Corporation, Montgomery Ward Life Insurance Company, Signature Agency, Inc., and Pioneer Trust & Savings Bank which was sold in September 1974). The Company's investments in subsidiaries which are not consolidated, and in companies 20% to 50% owned, are accounted for on the equity method. Marcor's share of the pretax earnings of these companies is included in consolidated earnings before taxes on income, and the provision for taxes on income is included in the consolidated provision.

Inventories

The valuation of retail store inventories is determined by the retail inventory method which prices individual items at current selling prices and reduces the amounts so determined to the lower of cost or market by applying departmental markup ratios. All other merchandising inventories are priced by individual items at the lower of cost (first-in, first-out method) or market (generally at current replacement cost).

The domestic manufacturing inventories are priced principally using the last-in, first-out method; other manufacturing inventories are generally priced at the lower of average cost or market (generally at current replacement cost). Manufacturing inventories are priced to include the costs of raw materials, labor and overhead.

Properties and Depreciation

Depreciation is provided using the straight-line method. Leasehold improvements are amortized over the shorter of estimated physical life or the term of the lease. Cost of timber harvested is based on units cut and the per unit cost of estimated recoverable timber. Maintenance and repairs are charged directly to earnings. Renewals and betterments of fixed assets are charged to property and equipment accounts. Upon retirement or disposition, the cost and the depreciation or amortization previously provided are removed from the accounts. Gains or losses on such retirements are included in earnings. Interest and other carrying costs incurred relating to construction in progress are capitalized since such costs are considered an integral part of the cost of the property. If such interest costs had not been capitalized, net earnings would have been reduced by $1,612,000 in 1975 and $1,466,000 in 1974.

Deferred Federal Taxes on Income

The Company provides currently for federal taxes on income on all items included in the Statement of Earnings, regardless of when such taxes are payable. For federal income tax purposes, the gross profit from installment sales (which is included in income at the time of sale for financial reporting purposes) is deferred until the receivables arising from such sales are collected, and the related deferred taxes are classified as a current liability. This liability is reduced by the net future tax benefits arising from other timing differences relating to current assets and liabilities. Taxes which have been deferred due to the use of accelerated depreciation for income tax purposes are classified as a non-current liability.

Investment Tax Credit

The reduction in federal income taxes resulting from the investment tax credit for new property and equipment is reflected in the Statement of Earnings currently.

Pre-Operating Expenses

Expenditures of a non-capital nature incurred prior to the opening of a new retail store are charged against earnings as incurred. The same policy is generally followed for manufacturing facilities, except that such expenditures relating to new mills, if material, are deferred and amortized over the first 36 months of operations.

Overseas Subsidiaries

The consolidated financial statements include the Company's significant overseas subsidiaries. Accounts of overseas subsidiaries are translated to U.S. dollars based on official or free rates of exchange as follows: plant and equipment accounts at historic rates; other assets and liabilities at rates in effect at the end of the year; income accounts (with exception of depreciation which is translated at historic rates) at the applicable current rates during the year. No provision is made for overseas withholding or U.S. income taxes on substantially all the undistributed earnings of overseas subsidiaries since the Company intends to reinvest permanently that portion not remitted as dividends.

The Company has maintained a reserve for possible reduction of asset values occasioned by currency devaluations. Translation gains and losses from currency fluctuations and devaluations are included in the reserve when incurred, with the exception of certain regularly recurring losses which are charged to earnings currently. In accordance with the Financial Accounting Standards Board Statement No. 8 regarding translation of foreign currency transactions, this reserve will be discontinued in the fiscal year ended January 31, 1977 and future translation gains and losses will be included in the determination of net earnings as they occur. The effect of implementation of the provisions of this statement will be insignificant.

Cost of Acquiring Subsidiaries

Substantially all costs of acquiring subsidiary companies in excess of the underlying book value of assets resulted from transactions prior to October 31, 1970 and are not amortized. Such costs resulting from transactions after that date are amortized over 40 years unless the values are assigned to specific identifiable assets, in which case the period of amortization is the remaining life of the specific asset.

Retirement Plans

The provision charged to earnings each year is sufficient to cover the normal cost of the retirement plans including amortization of unfunded prior service liabilities over a 40 year period and interest thereon. Prior to January 1, 1976 costs of the retirement plans were funded on a discretionary basis and after December 31, 1975 the annual retirement plan costs will be funded in accordance with actuarial determinations pursuant to the Employee Retirement Income Security Act of 1974.

Marcor Inc. and Consolidated Subsidiaries

Statement of Earnings

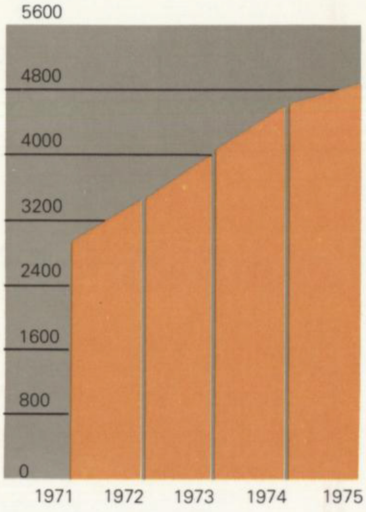
Fiscal years ended ($ thousands except per share amounts)	January 31 1976	January 31 1975
Net sales	$4,822,273	$4,667,479
Costs and expenses		
Cost of goods sold	$3,517,785	$3,379,946
Operating, selling, administrative and research expenses	902,658	886,547
Interest expense (net of interest capitalized of $3,630 in fiscal 1975 and $3,278 in fiscal 1974)	145,563	174,949
Provision for taxes on income	121,071	105,662
Total costs and expenses	$4,687,077	$4,547,104
Net earnings before cumulative effect of change in accounting policy	$ 135,196	$ 120,375
Cumulative effect on prior years of change in accounting policy related to store pre-operating expense	—	4,651
Net earnings	$ 135,196	$ 115,724
Net earnings per common share		
Primary		
Net earnings per share before cumulative effect of change in accounting policy	$ 3.60	$ 3.56
Cumulative effect on prior years of change in accounting policy	—	.16
Primary earnings per share	$ 3.60	$ 3.40
Fully diluted		
Net earnings per share before cumulative effect of change in accounting policy	$ 2.85	$ 2.74
Cumulative effect on prior years of change in accounting policy	—	.11
Fully diluted earnings per share	$ 2.85	$ 2.63

Statement of Earnings Reinvested

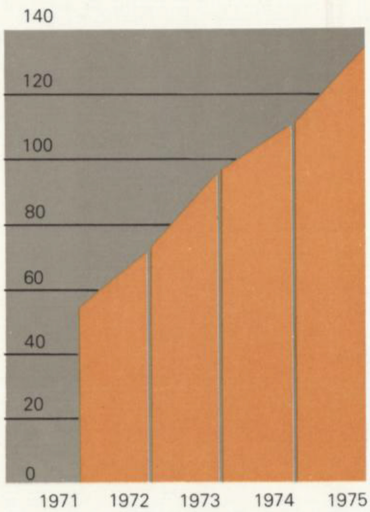
Fiscal years ended ($ thousands except per share amounts)	January 31 1976	January 31 1975
Balance at beginning of year	$ 811,663	$ 740,075
Net earnings	135,196	115,724
Total	$ 946,859	$ 855,799
Cash dividends:		
Preferred stock Series A ($2.00 per share)	$ 10,018	$ 11,353
Preferred stock Series B ($1.75 per share in 1975 and $.5382 per share in 1974)	14,000	4,306
Common stock ($1.00 per share in 1975 and $.97½ per share in 1974)	30,842	28,477
Total dividends	$ 54,860	$ 44,136
Balance at end of year	$ 891,999	$ 811,663

The Statement of Major Accounting Policies on page 17 and the Financial Information on pages 22 through 31 are an integral part of these statements.

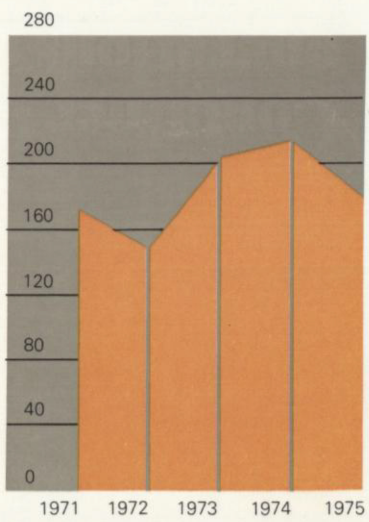
Marcor Net Sales
millions of dollars



Marcor Net Earnings
millions of dollars



Marcor Capital Expenditures
millions of dollars



Statement of Changes in Financial Position

Fiscal years ended ($ thousands)	January 31 1976	January 31 1975
Source of funds		
Net earnings	$ 135,196	$ 115,724
Depreciation, amortization and cost of timber harvested	87,719	79,981
Deferred federal taxes on income (including deferred taxes primarily relating to installment receivables of $69,126 in 1975 and $55,191 in 1974)	80,698	71,471
Earnings of unconsolidated subsidiaries and affiliates net of dividends received	(33,778)	(42,628)
Total provided from operations	$ 269,835	$ 224,548
Long-term financing	131,023	20,670
Sale of property	14,483	31,975
Proceeds from sale of Series B preferred stock	—	200,000
Proceeds from sale of Pioneer Trust & Savings Bank	—	24,000
Proceeds from stock options exercised	2,872	5,215
Decrease in treasury common stock	116	930
Other, net	547	5,695
Total source of funds	$ 418,876	$ 513,033
Disposition of funds		
Property additions and improvements	$ 179,869	$ 214,796
Cash dividends	54,860	44,136
Increase in investments and other assets	84,130	71,279
Reduction of long-term debt	37,737	19,401
Total disposition of funds	$ 356,596	$ 349,612
Increase in working funds (working capital and deferred federal taxes on income primarily relating to installment receivables)	$ 62,280	$ 163,421
Analysis of increases (decreases) in working funds		
Cash and marketable securities	$ 4,218	$ 21,411
Receivables	101,435	(30,423)
Notes receivable from affiliates	92,426	35,700
Inventories	(15,740)	108,254
Prepaid expenses	(2,575)	(5,780)
Short-term loans and current portion of long-term debt	8,215	(316)
Notes payable to affiliates	(645)	12,333
Accounts payable and accrued expenses	(104,412)	23,983
Federal taxes on income currently payable	(20,642)	(1,741)
Increase in working funds	$ 62,280	$ 163,421

Marcor Inc. and Consolidated Subsidiaries

Balance Sheet

($ thousands)	January 31, 1976	January 31, 1975
Assets		
Current assets		
Cash	$ 71,269	$ 73,342
Marketable securities, at cost which approximates market	14,382	8,091
Receivables, less reserves	440,589	339,154
Notes receivable from affiliates	128,126	35,700
Inventories	942,625	958,365
Prepaid expenses	51,968	54,543
Total current assets	$1,648,959	$1,469,195
Investments and other assets	564,757	436,628
Properties and equipment, net	1,146,204	1,087,132
Excess of cost of acquired subsidiaries over underlying book value at dates of acquisition	175,994	176,068
Total assets	$3,535,914	$3,169,023
Liabilities and stockholders' equity		
Current liabilities		
Short-term loans and current portion of long-term debt	$ 34,566	$ 42,781
Notes payable to affiliates	3,220	2,575
Accounts payable and accrued expenses	764,860	660,448
Federal taxes on income:		
Currently payable	31,064	10,422
Deferred (primarily relating to installment receivables)	352,207	283,081
Total current liabilities	$1,185,917	$ 999,307
Deferred federal taxes on income (relating to accelerated depreciation)	$ 106,100	$ 94,528
Long-term debt, less amounts due within one year:		
Senior indebtedness	$ 458,331	$ 373,289
Subordinated indebtedness	368,978	369,108
Total long-term debt	$ 827,309	$ 742,397
Minority interest in subsidiaries	$ 23,713	$ 23,346
Stockholders' equity		
Series A preferred stock at stated value	$ 38,558	$ 41,759
Series B preferred stock at stated value	200,000	200,000
Common stock at stated value	265,281	259,124
Earnings reinvested	891,999	811,663
	$1,395,838	$1,312,546
Less—treasury common stock, at cost	2,963	3,101
Total stockholders' equity	$1,392,875	$1,309,445
Total liabilities and stockholders' equity	$3,535,914	$3,169,023

The Financial Position Detail on page 21, the Statement of Major Accounting Policies on page 17 and the Financial Information on pages 22 through 31 are an integral part of these statements.

Financial Position Detail

($ thousands)	January 31, 1976	January 31, 1975
Accounts receivable		
Wards' customer credit receivables	$2,283,022	$1,983,350
Other	299,901	295,762
	$2,582,923	$2,279,112
Reserve for uncollectible accounts	(66,615)	(59,908)
Accounts sold to credit subsidiary (less contract withholding account)	(2,075,719)	(1,880,050)
Receivables, less reserves	$ 440,589	$ 339,154
Investments and other assets		
Investments in unconsolidated subsidiaries and affiliates:		
Montgomery Ward Credit Corporation	$ 382,060	$ 353,740
Montgomery Ward Life Insurance Company	26,953	21,604
T. R. Miller Mill Co. (49% interest)	19,880	19,118
Other (including 20% to 50% owned companies)	8,706	7,490
	$ 437,599	$ 401,952
Other assets:		
Notes receivable from affiliates	93,038	10,742
Other	34,120	23,934
Total investments and other assets	$ 564,757	$ 436,628
Properties and equipment, at cost		
Land	$ 88,956	$ 90,881
Timberlands, less cost of timber harvested	85,869	82,693
Buildings	489,708	462,927
Leasehold improvements	118,777	108,066
Machinery, fixtures and equipment	1,069,451	992,532
	$1,852,761	$1,737,099
Less accumulated depreciation and amortization	706,557	649,967
Properties and equipment, net	$1,146,204	$1,087,132
Long-term debt (less amounts due within one year)		
Marcor		
6½% subordinated instalment debentures, due 1988	$ 269,302	$ 269,302
5% subordinated debentures, due 1996, convertible at $40.50 per common share	99,286	99,286
Container Corporation		
Sinking fund debentures due from 1980 to 1993 bearing interest from 3.3% to 6⅝%	51,977	55,755
Lease obligations, average interest rate of 5.8%	60,707	62,049
Installment purchase contracts bearing interest from 6½% to 7⅞%	21,975	—
Other	36,163	28,327
Montgomery Ward		
Sinking fund debentures due from 1982 to 1990 bearing interest from 4⅞% to 6%	129,848	136,533
9⅜% sinking fund debentures, due 2000	75,000	—
Other	20,767	9,018
Montgomery Ward Real Estate Subsidiaries		
Secured notes due serially to 2005 bearing interest from 4¾% to 8½%	58,585	60,376
Other Subsidiaries		
Various notes and debentures maturing over the next 11 years	3,699	21,751
Total long-term debt	$ 827,309	$ 742,397

Financial Information Marcor

Voting Control of Marcor

Acquisition of voting control of Marcor by Mobil Oil Corporation was completed in September 1974 when Mobil Oil Corporation purchased 8 million shares of Series B preferred stock from Marcor for $200 million. This stock together with other equity securities of Marcor acquired by Mobil in connection with a tender offer and securities previously acquired provide Mobil with approximately 54% of the voting control of outstanding equity securities of Marcor. In connection with this acquisition by Mobil Oil Corporation, Marcor's interest in Pioneer Trust & Savings Bank was sold for $24 million in cash in September 1974. The sale resulted in a net loss of $4,489,000 which was included in Marcor's Statement of Earnings for the year ended January 31, 1975, and was charged in full to the third quarter. The net earnings of Pioneer Trust & Savings Bank included in the statement of earnings of Marcor and Wards were $3,022,000 in 1974.

Proposed Merger with Mobil

Mobil Oil Corporation has presented a merger proposal to Marcor, which was approved in principle by the Board of Directors of Marcor on March 29, 1976, subject to the negotiation of a definitive merger agreement. The proposal contemplates that a new holding company named Mobil Corporation will be formed under the laws of Delaware (the "Holding Company"). Mobil Oil will become a wholly-owned subsidiary of the Holding Company in a merger transaction whereby the holders of Mobil Oil's outstanding common stock will receive common stock of the Holding Company on a share for share basis. The proposal then contemplates that Marcor will also become a wholly-owned subsidiary of the Holding Company in a merger transaction under the terms of which each outstanding share of Marcor's Common Stock not owned by Mobil will be converted into .16 of a share of common stock of the Holding Company and $30 principal amount of an 8½%, 25-year Debenture of the Holding Company and each outstanding share of Series A Preferred Stock of Marcor not owned by Mobil (which is presently convertible into two shares of Common Stock of Marcor) would be converted into .32 of a share of common stock of the Holding Company and $60 principal amount of the 8½%, 25-year Debentures of the Holding Company. The Marcor merger is subject to (1) the approval of the holding company structure by the Mobil stockholders, (2) the approval of a definitive merger agreement by the Boards of Directors of both Marcor and Mobil Oil and (3) the approval of the definitive merger agreement by Marcor's stockholders. Mobil Oil Corporation has stated that it will vote the stock of Marcor which Mobil owns in accordance with the votes of a majority of the outstanding shares of Marcor owned and voted by the public.

Earnings Per Share

Earnings per share increased 5.9% to $3.60 on a primary basis in 1975, compared with $3.40 in 1974. On a fully diluted basis, earnings per share were $2.85 in 1975 and $2.63 in 1974.

Net earnings per common share have been determined based upon the average number of common shares oustanding during each period, adjusted to include the common equivalent shares represented by outstanding stock options (if effect is dilutive). On a primary basis, net earnings have been adjusted for preferred dividend requirements. On a fully diluted basis, the number of shares have been adjusted to include the assumed conversion of all outstanding Series A preferred shares and convertible debentures, and net earnings have been adjusted for Series B preferred dividend requirements and interest on the convertible debentures less applicable taxes on income.

Principal Lines of Business

Sales and pretax earnings of Marcor's principal lines of business are summarized below. Additional financial information for Container Corporation and Montgomery Ward is included in this report on page 27 and pages 28 through 31, respectively.

Marcor Sales by Principal Lines of Business

($ millions)	1975	1974	1973	1972	1971
Merchandising Montgomery Ward	$3,779	$3,623	$3,231	$2,640	$2,377
Packaging Container Corporation	953	965	767	645	559
Other subsidiaries	90	79	79	84	63
Total sales	$4,822	$4,667	$4,077	$3,369	$2,999

Marcor Pre-Tax Earnings by Principal Lines of Business

($ millions)	1975	1974	1973	1972	1971
Merchandising Montgomery Ward	$136.3	$ 90.5	$112.3	$ 90.2	$ 78.4
Packaging Container Corporation	136.5	153.7	98.6	62.1	41.2
Marcor interest expense not allocated above	(22.5)	(22.6)	(22.6)	(22.6)	(20.6)
Other	6.0	(4.5)	(8.3)	2.3	2.0
Total pre-tax earnings	$256.3	$217.1	$180.0	$132.0	$101.0

Hydro Conduit Corporation

Hydro Conduit Corporation, a consolidated subsidiary of Marcor which manufactures and sells pre-stressed and pre-cast concrete products and other construction materials, earned $3,449,000 in 1975 compared to $1,324,000 in 1974.

Domestic Manufacturing Inventories

At the end of 1975 and 1974 domestic manufacturing inventories of $74 million and $79 million, respectively, were priced using the LIFO method. If these inventories had been priced using the lower of average cost or market the inventories would have been $20.3 million and $17.6 million higher than those reported as of the end of 1975 and 1974, respectively.

Store Pre-Operating Expenses

Store pre-operating expenses of Montgomery Ward incurred prior to 1974 were amortized over a 36-month period following the store opening date. As of the beginning of fiscal 1974, Ward adopted the policy of charging these costs to expense in the fiscal year incurred. The new method was adopted so as to recognize these costs as a current charge to earnings. The adjustment of $4,651,000 (after reduction of $4,293,000 for income taxes) to apply retroactively the new method is included in the Statement of Earnings for the fiscal year ended January 31, 1975.

Capital Expenditures

Marcor capital expenditures totalled $179,869,000 in fiscal 1975 and $214,796,000 in 1974. Montgomery Ward expenditures were made primarily to continue expansion of the retail store chain. In addition, Montgomery Ward's landlords invested approximately $19 million in leased stores opened in 1975. Container Corporation capital expenditures were primarily for construction of new paperboard mills in South America along with pollution control improvements and projects designed to increase efficiency and capacity of existing facilities. Capital expenditures, including expenditures for properties sold and leased back, for the last five years and estimates for 1976 are detailed in the table below.

Capital Expenditures

($ millions)	Montgomery Ward	Container Corporation	Other Subsidiaries	Total Marcor Consolidated
1976 Estimate (unaudited)	$106.0	$100.0	$4.5	$210.5
1975	91.2	84.6	4.1	179.9
1974	123.2	86.9	4.7	214.8
1973	113.1	75.0	14.5	202.6
1972	92.4	40.6	17.6	150.6
1971	97.8	64.1	11.5	173.4

Lease Commitments and Rental Expense

Lease obligations, principally real estate leases of Montgomery Ward, generally provide for the payment of minimum rentals and, in certain instances, additional amounts such as real estate taxes and additional rentals based upon a percentage of sales. Minimum rental obligations for the non-cancellable periods under all leases having original terms of more than one year, when discounted to present values, were $546 million at January 31, 1976, and $522 million at January 31, 1975.

Certain of these leases are considered to be non-capitalized financing leases as defined by the Securities and Exchange Commission. The present value, when discounted, of the minimum future rental payments under non-capitalized financing leases over the estimated useful life of the property, which includes the non-cancellable period and in most cases some of the option periods, was $505 million at January 31, 1976, and $479 million at January 31, 1975. Estimated lessor obligations for property taxes and other expenses relating to the maintenance of leased properties have been excluded from the minimum rentals in determining the present value of lease obligations. The weighted average interest rate used in the computation of the present value of rental payments under non-capitalized financing leases was 7.2% in 1975 and 7.0% in 1974. Individual interest rates ranged from 4.7% to 9.0% in both years.

The effect on net earnings, if non-capitalized financing leases had been capitalized, would have been a reduction of net earnings of approximately $3.8 million in fiscal 1975 and $2.5 million in fiscal 1974. These computations are based upon the following:

($ millions)	1975	1974
Amortization of property rights	$21.1	$17.3
Interest on related lease obligations	36.1	29.4

Minimum rentals under all non-cancellable leases in effect at January 31, 1976, which had an initial term of more than one year are as follows:

Leases

($ millions)	Non-Capitalized Financing Leases	Other Leases	Total
1976	$ 66.4	$21.2	$ 87.6
1977	65.5	14.9	80.4
1978	63.7	13.1	76.8
1979	61.4	10.3	71.7
1980	60.3	8.1	68.4
1981-1985	290.1	22.9	313.0
1986-1990	268.7	7.3	276.0
1991-1995	223.9	1.3	225.2
After 1995	248.1	.8	248.9

Rental Expense for 1975 and 1974

($ millions)	1975	1974
Non-capitalized financing leases:		
Minimum rental expense	$60.8	$51.8
Additional rentals based on sales	4.3	4.6
Other leases	41.2	35.3
Total	$106.3	$91.7

Long-Term Debt

Long-term debt payment requirements, excluding $18,299,000 due in 1976, are summarized below ($ millions):

1977	$19,189	1982	$ 18,258
1978	32,749	1983	16,570
1979	23,235	1984	29,807
1980	27,600	1985	34,249
1981	18,747	After 1985	606,905
		Total	$827,309

As of January 31, 1976, assets with a net book value of approximately $109 million represented collateral for certain of the long-term debt of Marcor subsidiaries.

Indenture Provisions

Indenture provisions covering the long-term indebtedness of Marcor's consolidated subsidiaries contain provisions which restrict the amount of dividends which these subsidiaries may pay to Marcor. Under the most restrictive of these provisions $449,812,000 of earnings reinvested of these subsidiaries was available for payment of dividends as of January 31, 1976. None of Marcor's earnings reinvested are restricted as to the payment of dividends by the indenture provisions covering the long-term debt of Marcor.

Financial Information Marcor

Taxes

The provisions for federal, overseas and state taxes on income consist of the following:

($ millions)	1975	1974
Federal taxes on income currently payable	$ 19.5	$ 2.2
Overseas taxes on income (principally current)	15.2	17.4
State taxes on income (principally current)	9.3	7.2
Deferred federal taxes on income:		
Due to use of installment sales method of accounting for tax purposes	54.2	74.5
Utilization of (increase in) investment tax credit carryover for tax purposes	10.6	(4.8)
Due to use of accelerated depreciation for tax purposes	12.5	9.8
Net future tax benefits arising from other timing differences relating to current assets and current liabilities	(.2)	(.6)
Total	$121.1	$105.7

U.S. income taxes are provided on dividends received from overseas subsidiaries. During the past three years, dividends have averaged 60% of the earnings for these subsidiaries. As of January 31, 1976, the undistributed earnings of overseas subsidiaries were $72 million, all of which has been reinvested in properties, equipment and working capital. Accordingly, no provision for overseas withholding or U.S. income taxes has been made on substantially all the undistributed earnings reinvested.

A reconciliation of effective tax rates to the statutory federal rate is as follows:

	1975	1974
Provision at statutory rate	48.0%	48.0%
Investment tax credit	(3.6)	(2.7)
Higher (lower) rates on overseas operations	.9	(.7)
State taxes on income less applicable federal taxes	1.9	1.7
All other—net	—	.4
Total	47.2%	46.7%

Internal Revenue Service

The Internal Revenue Service has proposed adjustments to the consolidated federal income tax returns of Marcor for the fiscal years 1968, 1969 and 1970 which would have resulted in an asserted deficiency of $36 million. The proposed adjustments related principally to the method of computing gross profit deferred under the installment method of accounting for federal income tax purposes.

The asserted deficiency was protested and hearings were held with the Regional Appellate Office for the IRS. A tentative settlement was reached during the current year which when finalized will result in an additional tax assessment of $6.5 million. Changes in the method of computing the deferral of gross profit for tax purposes resulting from this settlement will increase taxes payable for the years 1971 through 1974 by approximately $3 million.

The effect of these items on earnings is minimal, since the tax has previously been charged against reported earnings.

Other Marcor Taxes

Marcor's taxes, other than income taxes, included in the statement of earnings for 1975 consisted of $70.8 million for payroll taxes and $42.2 million for real estate, personal property, franchise and miscellaneous taxes compared with $67.0 million and $36.5 million, respectively, for 1974.

Common Stock

Common stock is $1.00 par value, and 70,000,000 shares are authorized. Shares issued at January 31, 1976 and 1975 were 31,488,451 and 30,540, 901, respectively, of which 106,939 and 111,866 shares, respectively, were held in treasury.

Common Stock reserved for conversion of outstanding preferred stock and convertible debentures and for the stock option plan totalled 21,089,254 shares at January 31, 1976.

Summary of Treasury Common Stock Transactions

	Shares	Amount ($ millions)
Balance January 31, 1975	111,866	$3.1
Issuance of restricted stock	(4,717)	(.1)
Options exercised	(210)	—
Balance January 31, 1976	106,939	$3.0

Summary of Common Stock Option Transactions

	Shares
Options outstanding at January 31, 1975	465,573
Options granted during 1975	207,300
Options exercised during 1975	(148,896)
Options cancelled and expired during 1975	(31,402)
Options outstanding at January 31, 1976	492,575
Average option price of outstanding options	$ 21.88
Average option price of options exercised during 1975	$ 19.29
Options exercisable at January 31, 1976	158,108

Preferred Stock

Preferred stock is $1.00 par value issuable in series, and 30,000,000 shares are authorized.

Each share of $2.00 Series A cumulative preferred is convertible into two shares of common and callable at $45 per share. The total liquidating value was $216,555,000 and $234,529,000 at January 31, 1976 and 1975 and the number of shares issued and outstanding was 4,812,327 and 5,211,759, respectively.

The 8,000,000 issued and outstanding shares of Series B preferred stock ($1.75 per share cumulative dividends through October 15, 1979 and $2.25 per share thereafter) are redeemable at $25 per share by Marcor on October 15, 1979, if approved by the holders of Marcor stock, other than Series B. Mobil has agreed it will vote all stock it holds, other than Series B stock, for or against such redemption in accordance with the majority of other stockholders. If called for redemption, the shares may be converted into common stock on a share-for-share basis, at the option of the holders of the Series B preferred stock. If not redeemed or converted by October 15, 1979, Marcor will make annual sinking fund payments beginning on October 15, 1984, sufficient to redeem 10% of the Series B preferred shares outstanding on May 31, 1984. Mobil, if and so long as it is the owner of all the Series B preferred stock outstanding, may defer the sinking fund payments.

Summary of Common and Preferred Stock Transactions

	Common		Series A Preferred	
	Shares	Amount ($ millions)	Shares	Amount ($ millions)
Balance January 31, 1975	30,540,901	$259.1	5,211,759	$41.8
Options exercised	148,686	2.9	—	—
Preferred shares converted to common shares	798,864	3.2	(399,432)	(3.2)
Tax benefit applicable to sales of optioned stock by recipients	—	.1	—	—
Balance January 31, 1976	31,488,451	$265.3	4,812,327	$38.6

Litigation

A number of pending lawsuits against Marcor, Montgomery Ward and other retailers, some of which purport to be brought as class actions, attack under federal and state laws the legality of certain advertising, credit and billing practices. The relief requested in these lawsuits includes: refunds of finance charges collected during periods dating back to 1964; statutory penalties under state laws and the federal Truth-in-Lending Act; injunctive relief requiring changes in the challenged practices; relief preventing the collection of outstanding balances; punitive damages; and costs, including reasonable attorneys' fees. The ultimate liability under the lawsuits against Montgomery Ward and Marcor is not presently determinable, but such suits could, over a period of time, involve millions of dollars if they should be decided adversely. However, the management of the Company does not anticipate that the ultimate disposition of these lawsuits will have a material adverse effect on the business or the financial position of the Company.

A federal grand jury investigation of the folding carton industry, pending for some time in the United States District Court in Chicago, Illinois, was recently concluded with the indictment on February 18, 1976, of 23 companies, including Container Corporation of America. Indictments were also returned against a number of present or former executives of these companies, including four officers and four other employees of Container. The indictment alleges that in violation of the Sherman Act, during a period at least as early as 1960 until sometime prior to December, 1974, the defendants were involved in a combination and conspiracy to fix prices. The maximum penalty for each corporate defendant is a fine of $50,000 and, for each individual defendant, a fine of $50,000 or imprisonment for one year, or both. Also, on February 18, 1976, the Justice Department filed in the same court a civil suit alleging the same violations of the Sherman Act and seeking injunctive relief. The management of the Company does not anticipate that the ultimate disposition of the civil or criminal cases, even if adversely decided, will have a material adverse effect on the business or the financial position of the Company.

As of March 19, 1976, numerous private lawsuits, purporting to be class actions and seeking treble damages under the antitrust laws, had been filed in various sections of the country against the indicted companies, including Container. These cases allege in substance the same allegations made by the Justice Department in the criminal and civil cases, and seek treble damages with respect to some or all of the sales from at least as early as 1960 through 1974 of folding cartons and related products by members of the industry. It seems likely that additional class action suits involving or related to the folding carton industry will be filed. Management believes that the plaintiffs in the cases filed or to be filed will ultimately claim damages in material amounts, but due to the very recent commencement of this litigation and the uncertainty necessarily inherent in suits of this type, the ultimate cost to Container on an unfavorable disposition of these cases is not presently determinable. However, the management of the Company does not anticipate that the ultimate disposition of these lawsuits will have a material adverse effect on the business or the financial position of the Company.

A federal grand jury investigation of the shipping container industry is presently under way in the United States District Court in Houston, Texas. The investigation relates to compliance with the antitrust laws in the pricing of shipping containers in the southern part of the United States. Subpoenas have been issued to a number of companies in that industry, including Container. Container is in the process of producing the documents requested of it under its subpoena. As of March 19, 1976, no testimony by any employee of Container had been requested.

In June, 1974, Marcor was informed that the Department of Justice was investigating whether the acquisition by Mobil Oil Corporation of a controlling interest in Marcor would violate the antitrust laws. In the course of this investigation, the Department of Justice requested information, which Marcor supplied. The Department has said that it is continuing to study the acquisition; however, Marcor has not been advised by the Department of Justice whether or not it intends to take any legal action. Marcor was advised by its outside legal counsel prior to the acquisition of its stock by Mobil Oil Corporation that such acquisition would not violate the antitrust laws.

Financial Information Marcor

Retirement Plans

Retirement plans of a contributory nature cover a majority of full-time employees of Marcor and its subsidiaries. The total cost provided applicable to these plans was $34,343,000 in 1975 and $21,873,000 in 1974.

Effective January 1, 1975, Ward amended its Retirement Security Plan to include, among others, changes in eligibility, vesting, employee contributions and amount of benefits to be received. In addition, on December 31, 1974, Ward discontinued company and employee contributions to its Profit Sharing Plan and employees' credits under the plan have been converted to supplemental benefits under the Retirement Security Plan. The Internal Revenue Service has approved the above changes as well as the merger of the Profit Sharing Trust assets with the Retirement Security Trust assets; the trust assets have been merged.

The increased cost of the amended Ward Retirement Security Plan in 1975 over the cost of the former plan in 1974 was approximately $10 million which was the approximate annual cost of the Ward Profit Sharing Plan in 1974.

Based upon the latest actuarial reviews (using data principally as of the end of 1974), which reflect the provisions of the amended plan of Montgomery Ward effective January 1, 1975, the past service liabilities under the retirement plans of Marcor and its subsidiaries exceeded the assets of the retirement plans (based upon market values as of January 31, 1976) including retirement plan accruals by approximately $92 million. However, the assets of the trusts including the retirement plan accruals exceed the vested benefits.

The Employee Retirement Income Security Act of 1974 required Marcor and its subsidiaries to amend their retirement plans to conform with certain provisions of the Act which became effective in 1976. Marcor believes that these changes will not have a significant effect on the past service liabilities and the annual retirement plan costs for 1976 and subsequent years and will not result in an excess of vested benefits over the retirement plan assets (based upon market values at January 31, 1976) including retirement plan accruals.

The Condensed Statements of Net Assets and Changes in Net Assets of the combined retirement plans of Ward and Container as of December 31, 1975 are shown at right.

Condensed Statement of Net Assets

($ millions)	December 31 1975
Cash and cash equivalents	$ 26.2
Fixed income securities, at market value	91.8
Common stocks, at market value:	
Marcor Inc.	24.1
Other	172.5
Funds with insurance company	14.9
Company contributions receivable	84.4
Other assets, net	4.2
Net assets	$418.1

Condensed Statement of Changes in Net Assets

Net assets at January 1, 1975	$337.4
Contributions:	
Participants	15.7
Employing companies	33.9
Investment income (net)	14.9
Market appreciation	50.0
Withdrawals and benefits paid	(33.8)
Net assets at December 31, 1975	$418.1

Financial Information
Container Corporation of America

Condensed Statement of Earnings

Fiscal Years ended ($ thousands)	January 31 1976	January 31 1975
Net sales	$953,308	$964,690
Costs and expenses:		
Costs of products and merchandise sold	$734,948	$734,226
Operating, selling, administrative and research expenses	75,636	68,206
Interest expense	6,189	8,582
Provision for taxes on income	67,888	74,523
Total costs and expenses	$884,661	$885,537
Net earnings before parent company interest charges	$ 68,647	$ 79,153
Interest expense allocated from parent company, less applicable taxes on income	4,557	4,557
Net earnings	$ 64,090	$ 74,596

Condensed Balance Sheet

($ thousands)	January 31 1976	January 31 1975
Assets		
Current assets		
Cash and marketable securities	$ 15,196	$ 10,357
Receivables, net	112,612	100,886
Receivables from affiliates	84,050	94,585
Inventories	102,673	121,056
Prepaid expenses	21,362	20,336
Total current assets	$335,893	$347,220
Note receivable from affiliate	60,000	—
Investments and other assets	32,920	31,362
Properties and equipment, net	538,563	477,053
Excess of cost of acquired subsidiaries over underlying book value at dates of acquisition	6,605	6,605
Total assets	$973,981	$862,240
Liabilities and equity		
Current liabilities		
Short-term loans and current portion of long-term debt	$ 28,425	$ 36,463
Accounts payable and other current liabilities	174,684	163,177
Total current liabilities	$203,109	$199,640
Deferred federal taxes on income	45,405	40,842
Long-term debt	195,747	153,131
Minority interest in subsidiaries	23,713	23,346
Equity of Marcor Inc.	506,007	445,281
Total liabilities and equity	$973,981	$862,240

Overseas Operations

Overseas operations of Container Corporation accounted for $0.20 per common share in 1975 (fully diluted) compared with $0.40 in 1974.

Summary of Overseas Operations

($ millions)	1975	1974
Net assets	$131.7	$131.3
Represented by:		
Minority interest	$ 23.7	$ 23.4
Container's equity	$108.0	$107.9
Net sales	$253.4	$255.4
Total earnings	$ 11.2	$ 20.2
Container's equity in total overseas earnings	$ 8.9	$ 17.1

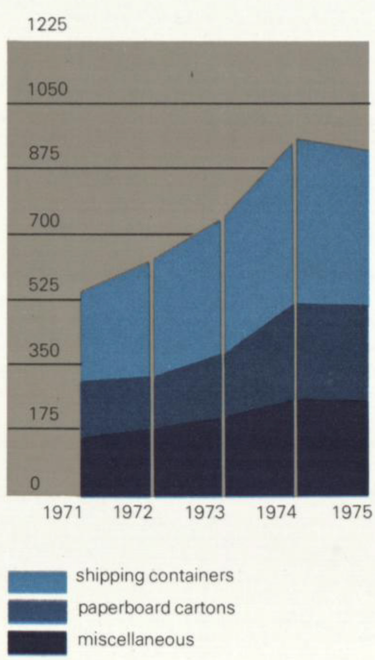
The aggregate amount of foreign exchange adjustments was not material in 1975 and 1974.

Sales by Product Category

($ millions)	1975	Percent of Total	1974	Percent of Total
Shipping containers	$450.7	47.3%	$455.5	47.2%
Paperboard cartons	221.0	23.2	219.7	22.8
Other packages	110.2	11.5	106.2	11.0
Total packaging	$781.9	82.0%	$781.4	81.0%
Paperboard and miscellaneous	171.4	18.0	183.3	19.0
	$953.3	100.0%	$964.7	100.0%

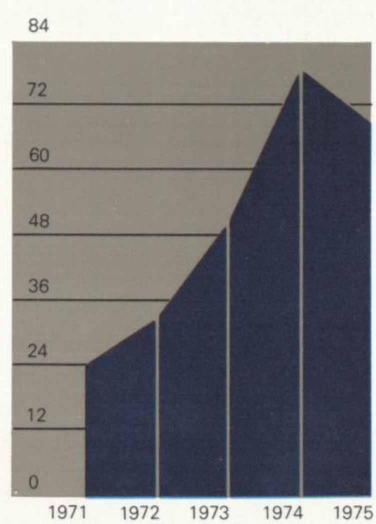
Container Corporation Sales by Product Categories

millions of dollars



Container Corporation Net Operating Earnings

before parent company interest charges
millions of dollars



Financial Information Montgomery Ward

Condensed Statement of Earnings

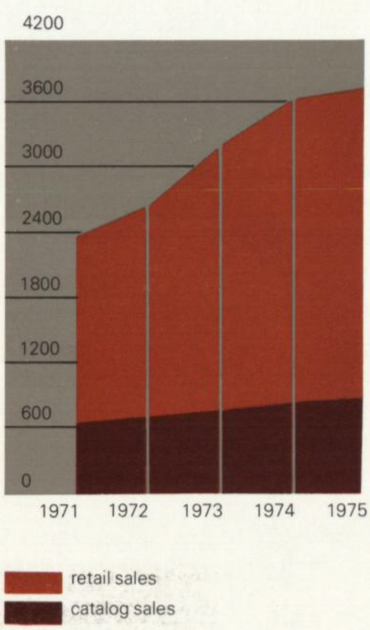
52-week period ended ($ thousands)	January 28 1976	January 29 1975
Net sales	$3,779,267	$3,622,735
Costs and expenses		
Costs of products and merchandise sold	$2,709,252	$2,579,727
Operating, selling, administrative and research expenses	815,222	799,711
Interest expense	118,471	143,867
Provision for taxes on income	61,500	43,314
Total costs and expenses	$3,704,445	$3,566,619
Net earnings before cumulative effect of change in accounting policy and parent company interest charges	$ 74,822	$ 56,116
Cumulative effect on prior years of change in accounting policy related to store pre-operating expenses	—	4,651
Net earnings before parent company interest charges	$ 74,822	$ 51,465
Interest expense allocated from parent company, less applicable taxes on income	7,166	7,172
Net earnings	$ 67,656	$ 44,293

Condensed Balance Sheet

($ thousands)	January 28 1976	January 29 1975
Assets		
Current assets		
Cash and marketable securities	$ 69,871	$ 63,808
Receivables, net	314,567	227,078
Receivables from affiliates	128,126	35,700
Inventories	831,629	826,197
Prepaid expense	42,159	46,036
Total current assets	$1,386,352	$1,198,819
Investments and other assets	463,038	407,104
Properties and equipment, net	577,496	540,157
Excess of cost of acquired subsidiaries over underlying book value at dates of acquisition	4,570	4,645
Total assets	$2,431,456	$2,150,725
Liabilities and equity		
Current liabilities		
Current portion of long-term debt	$ 3,385	$ 3,174
Accounts payable and other current liabilities	605,348	518,263
Payable to affiliates	107,807	110,436
Deferred federal taxes on income (primarily relating to installment receivables)	266,805	213,091
Total current liabilities	$ 983,345	$ 844,964
Deferred federal taxes on income	54,440	47,614
Long-term debt	284,200	205,927
Equity of Marcor Inc.	1,109,471	1,052,220
Total liabilities and equity	$2,431,456	$2,150,725

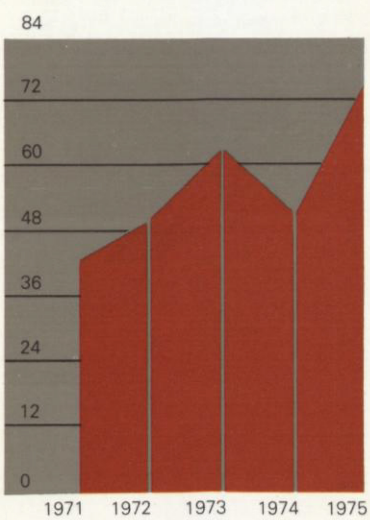
Montgomery Ward Sales

millions of dollars



Montgomery Ward Net Operating Earnings

before parent company interest charges
millions of dollars



Retail and Catalog Sales

Ward's retail sales increased 5.3% to $2,845 million in 1975 from $2,703 million in 1974. Catalog sales increased 1.4% to $881 million in 1975 from $869 million in 1974.

Store Space and Sales Per Selling Square Foot

During 1975, Wards opened 12 new stores and closed 25 stores bringing the number of retail stores to 433. Net selling space increased from 26,813,000 to 27,542,000 square feet. Sales per selling square foot, (which includes catalog orders processed through retail stores), based on only those stores in operation for the full year, were $116 in 1975 and in 1974.

Square Feet of Selling Area

(thousands)	1975	1974	1973	1972	1971
Stores opened since 1958:					
Open less than three years	4,686	4,990	5,016	4,552	4,391
Open three years or more	20,983	19,584	17,562	15,459	14,188
Old stores (substantially all opened prior to 1938)	1,873	2,239	2,784	3,354	3,872
Total square feet	27,542	26,813	25,362	23,365	22,451

Sales Per Selling Square Foot

	1975	1974	1973	1972	1971
Stores opened since 1958:					
Open less than three years	$103	$101	$ 91	$ 74	$ 76
Open three years or more	121	122	119	107	101
Old stores	78	80	75	64	64
Sales per selling square foot	$116	$116	$110	$ 96	$ 91

Advertising Expenses

Ward's advertising expenses, excluding catalog publication expense, were $146,221,000 or 3.9% of sales in 1975 and $140,977,000 or 3.9% of sales in 1974.

Consumer Insurance and Financial Services

Montgomery Ward Life Insurance Company and Signature Agency, Inc., wholly-owned non-consolidated subsidiaries of Montgomery Ward, specializing in mass marketing of insurance and consumer services to Montgomery Ward's credit customers, had net earnings of $7.7 million in 1975, a 45% increase from $5.3 million earned in 1974. Total premiums, commissions and other revenues of both companies combined were $50.2 million in 1975 compared with $37.9 million in 1974, an increase of 32.5%. Total life insurance in force was $2,003 million at December 31, 1975, an 8.7% increase over $1,843 million at December 31, 1974.

Consumer Credit Operations

Gross credit sales increased 4.5% in 1975 to $2,113.4 million from $2,022.7 million in 1974. The percent of gross credit sales to total gross sales was 51.1% in 1975 and 50.9% in 1974.

The number of Ward credit accounts with a balance increased 5.8% during 1975 to 6.5 million at year-end. The average credit account balance was $348 at the end of 1975, compared with $323 at the end of 1974. Active credit accounts had an average maximum maturity of 23.7 months in 1975 and monthly collections averaged 8.1% of the outstanding customer accounts receivable.

Delinquent accounts, (those on which one full monthly payment has not been received during the previous two to eight months) represented 4.5% of the total outstanding balances for all accounts at the end of 1975 as compared to 5.0% at the end of 1974.

Provision for credit losses is made to maintain adequate reserves to cover anticipated losses. Customer accounts are charged off against the reserve if no payment has been received for nine months or if notices are received of bankruptcy, fraud, death without estate or confinement in an institution. In 1975, net charge-offs were $49.1 million or 2.4% of the average receivable balance. Net charge-offs in 1974 were $33.8 million which represented 2.0% of the average receivable balance. Provision to the accounts receivable reserve exceeded net charge-offs by $7 million in 1975 and $10 million in 1974.

Credit Operating Results

($ millions)	1975	1974
Service charges	$331.1	$275.4
Expenses and cost of capital:		
Payroll	$ 47.1	$ 44.3
Provision for uncollectible accounts	56.1	44.0
All other credit and collection expenses	59.1	57.0
Cost of capital, computed as stated below	122.4	135.0
Federal taxes on income	34.3	5.6
Total expenses and cost of capital	$319.0	$285.9
Service charges in excess of (less than) expenses and cost of capital	$ 12.1	$ (10.5)

The cost of capital was allocated to the customer credit operations using the average cost of capital and the average total customer accounts receivable less deferred federal income taxes applicable to installment accounts receivable. The average cost of capital was based upon the average cost of borrowed funds including the cost of compensating balances (7.09% in 1975 and 9.99% in 1974) and the average cost of invested capital which is not deductible for income tax purposes (7.89% in 1975 and 6.92% in 1974). The average borrowings and invested capital of Montgomery Ward Credit Corporation were utilized in this calculation. The cost of invested capital was determined based upon a five-year average of earnings to market price of Marcor common stock. The prior year amounts have been restated to reflect this method of computing cost of capital. Service charges are credited against operating expenses in the Statement of Earnings.

Financial Information Montgomery Ward Credit Corporation

Summary of Operations

To finance credit sales, Montgomery Ward sells customer receivables to Montgomery Ward Credit Corporation without recourse. At the time receivables are purchased, the Credit Corporation withholds 5% of the balance to be paid by the customers as a reserve for potential credit losses. The Credit Corporation periodically charges an agreed discount on the unpaid balances of the accounts receivable. The discount rate, which may be changed from time to time by mutual agreement, is currently designed to produce earnings of 1½ times fixed charges on the Credit Corporation's debt.

Credit Corporation earnings were $28.3 million in 1975 compared to $37.3 million in 1974. Gross income (consisting principally of discount on receivables purchased from Montgomery Ward) of the Credit Corporation in 1975 was $162.4 million compared to $212.1 million in 1974. Interest expense decreased to $106.7 million from $139.3 million in 1974. Pretax earnings of the Credit Corporation, which were $54.5 million and $71.7 million for 1975 and 1974, respectively, are included in the consolidated statement of earnings as a reduction of interest expense, and the provision for taxes on income is included in the consolidated provision.

Condensed Balance Sheet

($ millions)	January 28 1976	January 29 1975
Assets		
Customer receivables	$2,185.0	$1,979.0
Other assets	39.4	31.3
Total assets	$2,224.4	$2,010.3
Liabilities and equity		
Demand notes payable and current portion of long-term debt	$ 86.4	$ 70.8
Commercial paper	621.1	809.5
Note payable to Montgomery Ward	127.7	35.7
Contract withholding account applicable to customer receivables	109.2	98.9
Accrued taxes and expenses	12.0	24.8
Senior long-term debt	840.9	591.9
Subordinated long-term debt	45.0	25.0
Total liabilities	$1,842.3	$1,656.6
Equity of Montgomery Ward	382.1	353.7
Total liabilities and equity	$2,224.4	$2,010.3

Short-Term Borrowings

Commercial paper outstanding at January 28, 1976 had maturities which ranged from 1 to 270 days, and a weighted average remaining term of approximately 17 days as of January 28, 1976. The following is a summary of certain data relating to short-term borrowings including commercial paper supported by multi-year loan commitments classified as long-term:

($ millions)	1975	1974
Average aggregate daily borrowings	$ 967	$ 999
Maximum aggregate borrowings outstanding at any fiscal month end during the period	$1,148	$1,102
Weighted average interest rate of borrowings without giving effect to compensating balances:		
Of total borrowings outstanding during the year	6.05%	10.02%
Of total borrowings outstanding at year-end	5.29%	8.04%

Unused Lines of Credit

As of January 28, 1976, Montgomery Ward Credit Corporation and Montgomery Ward had $828 million of unused lines of credit for short-term financing with banks. Substantially all of the unused lines of credit support the outstanding commercial paper of Montgomery Ward Credit Corporation and may be used by either the Credit Corporation or Montgomery Ward. The Credit Corporation and Montgomery Ward have a consistent practice of annually requesting and accepting renewals of these credit lines. Under informal arrangements, compensating balances are maintained with participating banks which average approximately 10% of the unused lines of credit, except for approximately $68.5 million of these lines for which a commitment fee of up to ⅜ of 1% is paid by the Credit Corporation on the unused commitment in lieu of maintaining compensating balances. Should these lines of credit be utilized, the compensating balances may, in certain instances, be increased up to 10% of such borrowings. The compensating balances are based on the average monthly collected balances per the banks' records and are legally subject to withdrawal.

Long-Term Borrowings

($ millions)	January 28 1976	January 29 1975
Notes payable (including $60 payable to Container Corporation at January 28, 1976)—variable rates related to 180 day commercial paper rate, 5.31% to 6.02% at January 28, 1976—due 13 months after demand	$126.0	$ 42.0
Commercial paper, supported by multi-year loan commitments from banks	270.0	50.0
Term notes—due 1976-1980	—	105.0
Term notes—7⅛% due 1979-1980	40.0	40.0
Senior debentures—4¾% to 9.60% due 1980-1995	404.9	354.9
Subordinated note payable to Montgomery Ward—10% due 1978	20.0	—
Subordinated debentures—5¼% due 1981	25.0	25.0
Total long-term debt	$885.9	$616.9

Neither Montgomery Ward nor Marcor guarantees the obligations of the Credit Corporation.

Loan Commitments

The Credit Corporation has entered into formal agreements with various banks pursuant to which it may borrow up to $270 million until the respective expiration dates of these agreements and is obligated to pay a fee of up to ½ of 1% of the unused portion of the commitments. Borrowings under these agreements are to be at an annual interest rate equal to 115% to 116% of the lending bank's prevailing best commercial lending rate or ⅝ of 1% to 1% above the London Inter Bank Offered Rates with respect to $50 million of these commitments and up to ½ of 1% above the lending bank's best lending rate with respect to $220 million. These commitments expire as follows; $40 million in fiscal 1977, $25 million in fiscal 1978, $30 million in fiscal 1979 and $175 million in fiscal 1980. The Credit Corporation intends to exercise its rights under these agreements in the event that it becomes necessary to refinance its commercial paper obligations through means other than the continued sale of its commercial paper.

Auditors' Report

To the Stockholders and Board of Directors of Marcor Inc.:

We have examined the balance sheet of Marcor Inc. (a Delaware Corporation) and consolidated subsidiaries as of January 31, 1976 and January 31, 1975, and the related statements of earnings, earnings reinvested and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying financial statements referred to above present fairly the financial position of Marcor Inc. and consolidated subsidiaries as of January 31, 1976 and January 31, 1975, and the results of their operations and the changes in their financial position for the years then ended in conformity with generally accepted accounting principles, consistently applied during the periods subsequent to the change made as of February 1, 1974 (with which we concur) in the method of accounting for store pre-operating expenses, as described in the financial information on page 22.

Arthur Andersen & Co

Arthur Andersen & Co.
Chicago, Illinois.
March 19, 1976 (except with respect to the "Proposed Merger with Mobil" discussed on page 22 as to which the date is March 29, 1976).

Ten-Year Summary of Marcor Operations

Summary of Earnings (A)

($ millions except per share amounts)	1975	1974	1973	1972
Net sales	$4,822.3	$4,667.5	$4,077.4	$3,369.3
Costs and expenses				
Cost of goods sold	$3,517.8	$3,379.9	$2,951.5	$2,429.4
Operating, selling, administrative and research expenses	902.6	886.6	818.3	720.8
Interest expense	145.6	174.9	127.5	87.0
Provision for taxes on income (C)	121.1	105.7	83.4	59.4
Net earnings before change in accounting policy (B) (C)	$ 135.2	$ 120.4	$ 96.7	$ 72.7
Effect of change in accounting policy related to store pre-operating expense	—	4.7	—	—
Net earnings (B) (C)	$ 135.2	$ 115.7	$ 96.7	$ 72.7

Financial Data (A)

Accounts receivable—parent and consolidated subsidiaries	$ 440.6	$ 339.2	$ 369.6	$ 269.7
Accounts receivable—owned by credit subsidiary	2,075.7	1,880.1	1,512.7	1,158.0
Inventories	942.6	958.4	850.1	709.1
Net investment in properties and equipment	1,146.2	1,087.1	984.3	930.6
Additions to properties and equipment	179.9	214.8	202.6	150.6
Depreciation and amortization	87.7	80.0	75.9	71.5
Long-term debt	827.3	742.4	741.1	736.0
Stockholders' equity (B) (C)	1,392.9	1,309.4	1,028.9	957.2
Book value per share (D)	31.12	28.77	26.60	24.58
Primary earnings per share (B) (D)	3.60	3.40	3.01	2.17
Fully diluted earnings per share (B) (D)	2.85	2.63	2.32	1.77
Cash dividends per common share (D) (E)	1.00	.97½	.87½	.80

Market History (calendar year basis)

Market price range of common shares (high-low) (D)	29⅛-13⅞	28⅛-13¼	29⅝-17¾	31⅜-21
Closing price year-end (D)	28⅞	13⅞	20	28⅝
Year-end price-earnings ratio (fully diluted earnings)	10	5	9	16

(A) The Statement of Major Accounting Policies on page 17 and the Financial Information on pages 22 through 31 should be read in conjunction with the above Summary of Marcor Operations.

(B) Net earnings for 1974 includes a net loss of $4.5 from the sale of Pioneer Trust & Savings Bank. As of the beginning of 1974, the Company adopted the LIFO method of determining inventory cost for a substantial portion of its domestic manufacturing inventories. This change in accounting had the effect of reducing net earnings for 1974 by $9.1.

1971	1970	1969	1968	1967	1966
$2,998.5	$2,804.8	$2,715.2	$2,500.7	$2,352.3	$2,354.5

$2,179.1	$2,010.5	$1,935.5	$1,791.0	$1,730.7	$1,732.3
632.7	589.5	564.9	526.7	484.3	482.4
85.7	90.9	84.2	55.9	44.6	48.4
43.5	54.3	63.6	53.3	29.5	27.8
$ 57.5	$ 59.6	$ 67.0	$ 53.8	$ 37.4	$ 36.7
—	—	—	—	—	—
$ 57.5	$ 59.6	$ 67.0	$ 53.8	$ 37.4	$ 36.7

$ 266.9	$ 311.1	$ 324.9	$ 226.7	$ 237.0	$ 257.5
890.0	710.0	851.5	821.1	663.3	622.0
629.9	598.5	530.8	499.4	448.0	457.1
937.2	831.7	750.4	706.5	602.3	580.5
173.4	159.8	136.3	99.7	95.9	101.9
63.7	54.1	50.2	47.4	45.4	41.7
726.6	627.9	652.5	642.9	299.8	270.1
920.7	896.0	859.3	817.6	791.7	777.5
23.38	23.00	22.07	20.62	19.71	19.09
1.64	1.77	2.09	1.57	.93	.90
1.42	1.50	1.72	1.36	.93	.90
.80	.72½	.50	.50	.50	.50

38⅞ - 26⅜	30⅞ - 18⅜	32¼ - 20⅝
30⅞	29¼	22⅝
22	20	13

(C) Amounts prior to November 1, 1968 have been reduced by the portions applicable to Container Corporation shares exchanged for debentures at that date.

(D) Adjusted for two-for-one stock split June 9, 1970.

(E) Dividends prior to November 1, 1968 are those paid on common shares of Montgomery Ward & Co., Incorporated.

Management Discussion and Analysis of Marcor Summary of Operations

Net Sales of Marcor

Net sales of Marcor increased 3.3% in 1975 and 14.5% in 1974. In 1975, Wards sales increased $157 million (4.3%) while Container sales decreased by $11 million (1.2%). In 1974, Wards sales increased $392 million (12.1%) and Container sales increased $197 million (25.7%). The sales increase for Wards during 1975 was primarily due to inflation. While it is impossible to calculate the exact effect of inflation on sales, the Bureau of Labor Statistics Department Store Inventory Price Indexes for 1975 and 1974 indicated overall price increases of 3.5% and 10.9%, respectively. However, a strong consumer buying environment produced unit sales gains for Wards in the fourth quarter of 1975. Container's sales decrease in 1975 was caused by reduced demand due to recession and customer inventory liquidations, particularly in the first three quarters of 1975 which were offset somewhat by an increase in demand in the fourth quarter compared with the weak fourth quarter of 1974.

The 1974 sales increase for Wards was due to the significant inflation factor along with an aggressive merchandise promotional program which were somewhat offset by a deteriorating consumer economy. The 1974 sales increase for Container was due to heavy demand and improved prices for packaging products during the first three quarters of the year which was only partially offset by a significant decline in demand during the fourth quarter of the year.

Cost of Goods Sold

Cost of goods sold rose $138 million (4.1%) in 1975 for Marcor as compared to $428 million (14.5%) in 1974. For Montgomery Ward, these costs increased $130 million (5.0%) in 1975 and $293 million (12.8%) in 1974. For Container, these costs increased only one million in 1975 and $137 million (22.9%) in 1974. The increases in these costs for Montgomery Ward during both 1975 and 1974 were due primarily to inflationary pressures which raised prices on merchandise purchased. Container's increase in 1974 was primarily due to increases in raw materials and fuel costs, along with increases in units of output. In 1975, Container's units of output were lower, but cost of goods sold increased slightly because of general inflationary pressures, particularly in fuel costs.

Operating, Selling, Administrative and Research Expenses

Operating, selling, administrative and research expenses for Marcor increased $16 million (1.8%) in 1975 and $68 million (8.3%) in 1974. For Wards, increases in these expenses for the two years were 1.9% and 8.1%. In 1975, the increase for Wards was due to a 6.6% increase in operating, selling, administrative and research expenses, offset by an increase of $56 million in finance charge revenues which are credited against operating expenses. In 1974, these expenses for Wards increased approximately 12.8% and were offset by an increase of $62 million in finance charge revenues credited against these expenses. For Container Corporation, operating, selling, administrative and research expenses increased 10.9% during 1975 due to continued inflationary pressures. In 1974, such expenses for Container increased 12.0% due to the high level of operations and inflationary pressures.

Interest Expense

Interest expense of Marcor decreased $29 million (16.8%) in 1975 and increased $47 million (37.2%) in 1974. Montgomery Ward's interest expense decreased $25 million (17.7%) in 1975 and increased $51 million (55.3%) in 1974. The decrease in 1975 for Wards was caused by a sharp reduction in average interest costs on short-term debt from 10.02% in 1974 to 6.05% in 1975 which was partially offset by increased debt. In addition, interest expense in the fourth quarter of 1974 and fiscal 1975 for both Marcor and Wards was reduced by the infusion of additional equity resulting from the acquisition of voting control of Marcor by Mobil Oil Corporation in September 1974.

The 1974 increase in interest expense for Montgomery Ward was due to increased requirements for short-term funds to finance customer receivables as well as higher short-term interest rates which averaged 8.49% in 1973 and 10.02% in 1974.

Net Earnings

Net earnings of Marcor increased $19 million (16.8%) in 1975 and $19 million (19.7%) in 1974. In 1975, the earnings of Wards increased $23 million (52.7%) and the earnings of Container decreased $11 million (14.1%). Wards earnings gains through the first three quarters of 1975 were primarily the result of declining interest costs and increased finance charge revenues which more than offset lower merchandise earnings. The merchandise earnings during the first three quarters were lower as a result of both lower unit sales and lower margins. Wards, in the fourth quarter of 1975, however, produced earnings gains from both merchandising and lower interest costs with merchandising earnings reflecting both increased sales levels and increased margins due to consumer spending patterns. Container's earnings decline in 1975 was primarily the result of lower earnings of overseas operations due to unfavorable economic conditions in Colombia, Spain and Italy.

The 1974 earnings decrease of Montgomery Ward was the result of higher interest costs, the charge for the cumulative effect on prior years of a change in the accounting treatment of store pre-operating expenses ($4.7 million) and the change in accounting for inventories to the LIFO method by its paint manufacturing subsidiary ($2.0 million). The earnings of Container increased in 1974 because of record levels of demand during the first three quarters of the year which enabled substantially all domestic and overseas operations to operate at near capacity levels during the first three quarters of the year. The exceptional earnings during the first three quarters of the year more than offset the decline in the fourth quarter of the year brought on by the recession and a $5.6 million charge due to the change to the LIFO method for substantially all domestic inventories. Marcor's 1974 earnings were reduced by the $4.5 million loss on the sale of Pioneer Trust & Savings Bank.

Directors and Officers

Montgomery Ward

Directors and Officers

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Curtis L. Ward

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Vice President for Planning and Economics, Mobil Oil Corporation

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Container Corporation of America

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R. Harper Brown
President and Chief Operating Officer

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Chairman of the Board of Marcor Inc. and Chairman, Executive Committee

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Donn O. Jennings
Everett G. Temple

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Richard S. Kelly

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Chairman of the Board and Chief Executive Officer, Montgomery Ward

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Secretary

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H. Arvid Johnson

Assistant Corporate Controllers

James R. Fallen
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Assistant Treasurer

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Assistant Secretaries

Richard W. Carpenter
Joseph B. Higgs

Marcor Inc.

Directors

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Executive Vice President and Chief Financial Officer, American Telephone and Telegraph Company

Edward S. Donnell
President, Marcor and Chairman of the Board and Chief Executive Officer, Montgomery Ward

William P. Drake
President, Chairman, Chief Executive Officer, Pennwalt Corporation (Manufacturer and distributor of chemicals, pharmaceuticals, dental products and specialized process equipment)

W. Leonard Evans, Jr.
President and Editor, Tuesday Publications

Gaylord Freeman
Honorary Chairman of the Board, The First National Bank of Chicago

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Executive Associate, John W. Galbreath & Co. (Real estate development)

James Lutz
Executive Vice President-Merchandising, Montgomery Ward

Arthur C Nielsen, Jr.
Chairman, A. C. Nielsen Company (Market research)

James Q. Riordan
Director, Senior Vice President for Finance, Mobil Oil Corporation

William P. Tavoulareas
Director, President, Vice Chairman of Executive Committee, Mobil Oil Corporation

Henry G. Van der Eb
Chairman of the Board, Chief Executive Officer, Container Corporation

Rawleigh Warner, Jr.
Director, Chairman of the Board, Chief Executive Officer, Chairman of Executive Committee, Mobil Oil Corporation

Marina v.N. Whitman
Distinguished Public Service Professor of Economics, University of Pittsburgh

Lawrence M. Woods
Vice President for Planning and Economics, Mobil Oil Corporation

Gordon R. Worley
Vice President-Finance, Marcor and Executive Vice President-Finance, Montgomery Ward

Other Officers

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Vice President
Organization Policy and Planning

Peter T. Jones
Vice President
Legal and Government Affairs

Patrick J. Head
Vice President
Washington Office

Richard S. Kelly
Secretary and General Counsel

Joseph R. Petr
Assistant Secretary

Marcor Committees

Executive Committee

Leo H. Schoenhofen (Chairman)
Edward S. Donnell
Henry G. Van der Eb
Gaylord Freeman
Arthur C. Nielsen, Jr.
William P. Tavoulareas
Rawleigh Warner, Jr.
James Q. Riordan (alternate)
Lawrence M. Woods (alternate)

Finance Commitee

Gordon R. Worley (Chairman)
Gaylord Freeman
James Q. Riordan
Leo H. Schoenhofen (ex officio)

Audit Committee

Charles L. Brown (Chairman)
W. Leonard Evans, Jr.
James Q. Riordan
Marina v. N. Whitman

Nominating and Compensation Committee

Rawleigh Warner, Jr. (Chairman)
Leo H. Schoenhofen
William P. Drake
Daniel M. Galbreath
Arthur C. Nielsen, Jr.

Restricted Stock, Stock Equivalent, Stock Price and Stock Option Plans Committees

Daniel M. Galbreath (Chairman)
William P. Drake
Arthur C. Nielsen, Jr.

Transfer Agents, Registrars and Trustees

Common Stock Transfer Agents:

Morgan Guaranty Trust Company of New York, NY

The Northern Trust Company
Chicago, IL

Common Stock Registrars:

Morgan Guaranty Trust Company of New York, NY

The First National Bank of Chicago
Chicago, IL

Preferred Stock Transfer Agents:

First National City Bank
New York, NY

Harris Trust & Savings Bank
Chicago, IL

Preferred Stock Registrars:

Chemical Bank
New York, NY

Continental Illinois National Bank and Trust Company of Chicago
Chicago, IL

6½% Subordinated Instalment Debentures Trustee:

Continental Illinois National Bank and Trust Company of Chicago
Chicago, IL

5% Convertible Subordinated Debentures Trustee:

The Northern Trust Company
Chicago, IL

Corporate Offices

Marcor Inc.

Montgomery Ward Plaza
Chicago, IL 60671
(312) 467-8800

Edgemart Bldg., 4 Denny Road
Wilmington, DE 19809
(302) 762-5256

Montgomery Ward & Co., Incorporated

Montgomery Ward Plaza
Chicago, IL 60671
(312) 467-2000

Container Corporation of America

One First National Plaza
Chicago, IL 60670
(312) 786-5500

A copy of the Form 10-K Annual Report for 1975 filed with the Securities and Exchange Commission will be furnished without charge on request to: Richard S. Kelly, Secretary of Marcor Inc., Edgemart Building, 4 Denny Road, Wilmington, DE 19809. Supplementary 10-year financial and operating data are published in Marcor's Financial Facts Book, a copy of which will be furnished without charge on request to Director, Financial Communication, Marcor Inc., 20-N, Montgomery Ward Plaza, Chicago, IL 60671.

Bicentennial Salute

"The enthusiastic leadership and support provided by Montgomery Ward managers and personnel across the country provided our nation with one of its most memorable Flag Day celebrations and was an inspiring manifestation of patriotism and public-spirited involvement." Such was the tribute from the American Revolution Bicentennial Administration for Wards leadership role in 1975 Flag Day celebrations.

In 1976, all citizens are being encouraged to fly the American flag from June 14 through July 4 at their homes or places of business. Community planning guides for this official "Bicentennial 21-Day Flag Salute" are available from Flag Salute, 20-N, Montgomery Ward Plaza, Chicago, IL 60671.